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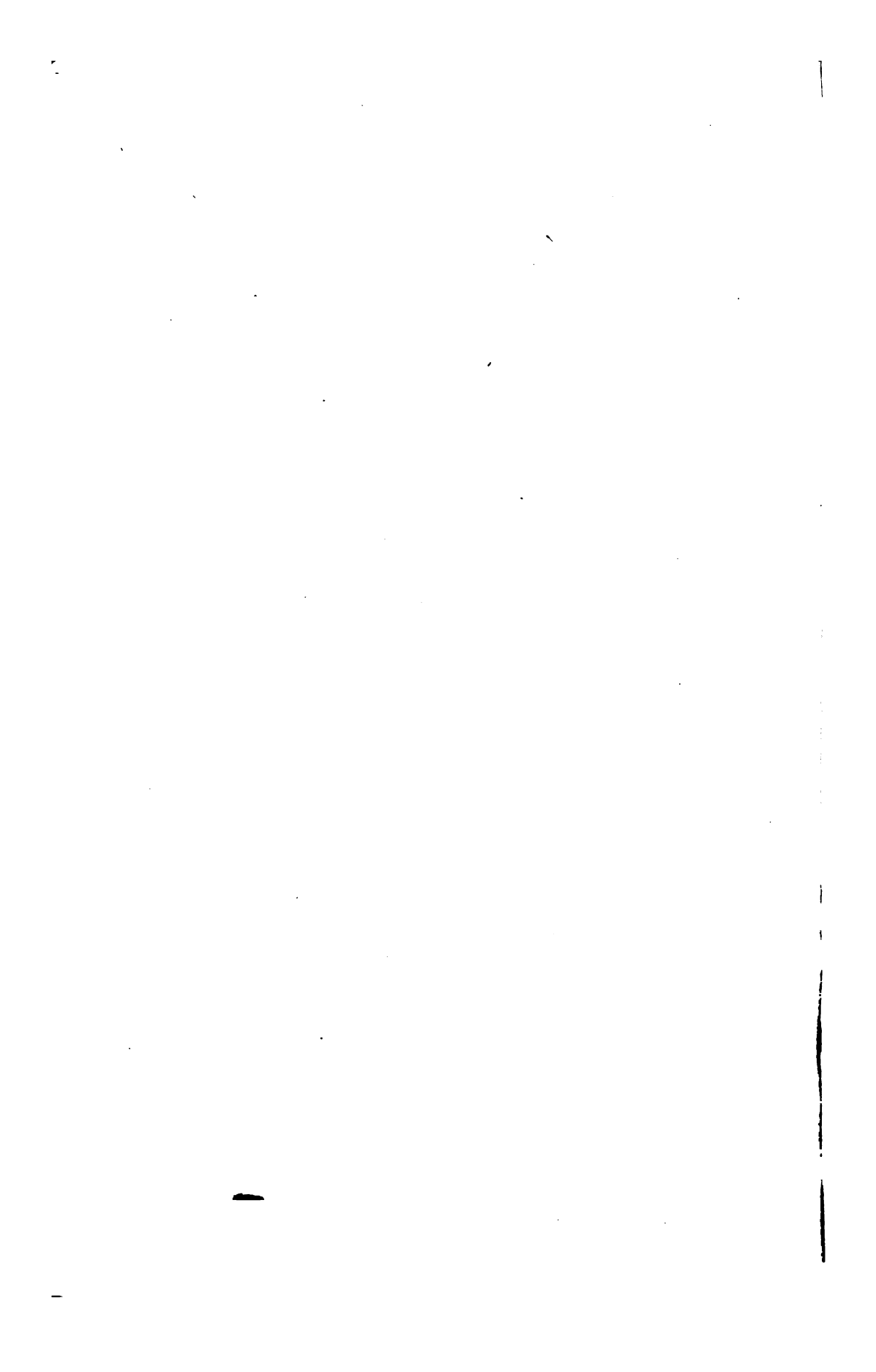
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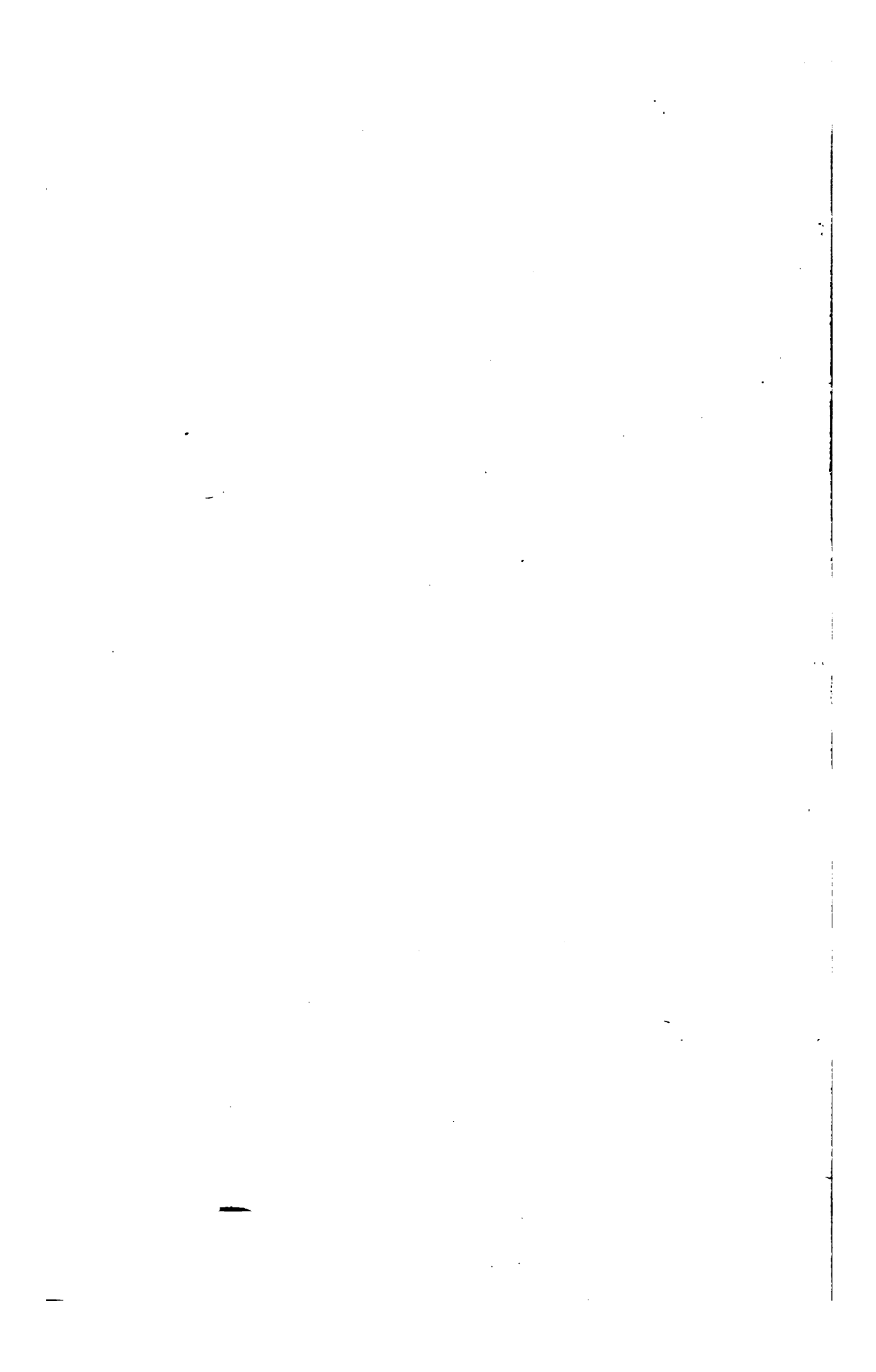
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REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS

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HEARING

BEFORE THE

COMMITTEE ON FINANCE Congress. UNITED STATES SENATE

SIXTY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 2135 *pt 1*

A BILL TO ENABLE THE REFUNDING OF OBLIGATIONS
OF FOREIGN GOVERNMENTS OWING TO THE UNITED
STATES OF AMERICA, AND FOR OTHER PURPOSES

WEDNESDAY, JUNE 29, 1921

Printed for the use of the Committee on Finance



WASHINGTON
GOVERNMENT PRINTING OFFICE
1921

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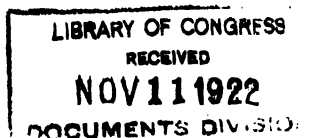
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REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

WEDNESDAY, JUNE 29, 1921.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10.30 o'clock a. m., in room 312, Senate Office Building, Senator Boies Penrose presiding.

Present: Senators Penrose (chairman), McCumber, Smoot, La Follette, Dillingham, Watson, Simmons, Williams, Jones, Gerry, Reed, Walsh, and McKellar.

Also present: Hon. Andrew W. Mellon, Secretary of the Treasury; Hon. Elliott Wadsworth, Assistant Secretary of the Treasury; and John E. Walker, Esq., chief of the legislative drafting service of the Senate.

The CHAIRMAN. The committee will come to order. The Secretary of the Treasury is expected to arrive here any minute to be heard upon a bill pending before the committee enabling the refunding of obligations of foreign Governments owing to the United States of America, and for other purposes. The bill will be printed in the stenographer's notes as opening the meeting.

I have here a letter of the President to the chairman of the Committee on Finance, transmitting the letter of the Secretary of the Treasury and containing other matters pertaining to the subject. I suppose the members of the committee have read it. These communications will also be inserted in the notes.

(The bill and correspondence referred to are printed in full, as follows:)

[S. 2135, Sixty-seventh Congress, first session.]

A BILL To enable the refunding of obligations of foreign Governments owing to the United States of America, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury, with the approval of the President, is hereby authorized from time to time to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign Government now owing to the United States of America, or any obligation of any foreign Government hereafter received by the United States of America (including obligations held by the United States Grain Corporation), arising out of the European war, into bonds or other obligations of such, or of any other, foreign Government, and from time to time to receive bonds and obligations of any foreign Government in substitution for those now or hereafter held by the United States of America, in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America, and to adjust and settle any and all claims, not now represented by bonds or obligations, which the United States of America now has or hereafter may have against any foreign Government and to accept securities therefor.

4 REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

THE WHITE HOUSE,
Washington, June 22, 1921.

MY DEAR SENATOR: I am inclosing to you herewith a copy of a letter which I have received from the Secretary of the Treasury relating to the obligations of foreign Governments to the United States which arose out of the World War and our participation therein. The statement is a comprehensive one, showing the detailed obligations which are owing to the United States, and the Secretary points out the urgent necessity of broad powers granted by the Congress for the arrangement for the refunding or conversion or extension of the time of payment of principal and interest on these obligations, and the adjustment of other claims of the United States against foreign Governments.

All the circumstances suggest the grant of broad powers to the Secretary of the Treasury to handle this problem in such a manner as best to protect the interests of our Government.

I hope your committee and the Congress will find it consistent promptly to sanction such an act as that which is suggested by the inclosed draft. If the Congress will promptly sanction such a grant of authority, the Secretary of the Treasury may proceed to the prompt exercise of the powers granted to him, and we reasonably may expect a satisfactory handling of the obligations due and the claims of our Government which are awaiting settlement.

Sincerely, yours,

WARREN G. HARDING.

Hon. BOIES PENROSE,
Committee on Finance, United States Senate.

TREASURY DEPARTMENT,
Washington, June 21, 1921.

MY DEAR MR. PRESIDENT: I desire to call to your attention the situation respecting the matter of the refunding of the debt of foreign Governments to the United States arising out of the European War.

This debt as now held summarized is as follows:

Obligations for advances made under the various Liberty bond acts.	\$9, 435, 225, 329. 24
Obligations received from the American relief administration.	84, 093, 963. 55
Obligations received from the Secretary of War and from the Secretary of the Navy on account of the sales of surplus war materials.	565, 048, 413. 80
Obligations held by the United States Grain Corporation.	56, 899, 879. 09
Total.	10, 141, 267, 585. 68

Annexed hereto are statements showing in detail the obligations above referred to, giving, as to each class, the amount owing by each country and, in the case of loans from the proceeds of Liberty loan bonds, the amount thereof loaned from the proceeds of the first Liberty loan bonds and the amount from subsequent Liberty loan bonds.

From this statement it will be seen that the obligations in respect of loans from the proceeds of Liberty bonds are all demand or overdue obligations, while the other classes referred to mature at various dates, beginning June 30, 1921, and extending to August 1, 1929. The obligations mentioned as being held by the United States Grain Corporation were received by that corporation from foreign Governments on account of the sale of flour under the act of March 30, 1920. As they may at any time be turned into the United States Treasury, and some of them mature on June 30 next, they are included here, so that they may be dealt with along with other like obligations.

From the statement it will also be seen that the obligations of the various classes named are largely owing by the same debtors; that is to say, this Government in the refunding of the various classes of these obligations will to a considerable extent have to deal with the same Governments.

I am advised that, except as to the advances made out of the proceeds of Liberty loan bonds, this department is without authority to consent to any extension of the time for payment of the principal or of the interest of these obligations or to proceed with the refunding thereof. As to the advances made out of the proceeds of Liberty loan bonds, the existing authority contains such diverse provisions as to interest rates, the maturity, and other terms of the refunding bonds that may be accepted by the department as makes it difficult to formulate a plan whereby the interests of this Government may be as well protected and the bonds to be received be in as desirable form as would be the case if the entire debt of each country could be dealt with as a whole and free from such restrictions.

In some cases the debtor nations owe large amounts to other countries as well as to the United States, and it may be advisable, and in some cases indeed necessary, to consider comprehensively the entire debt of such countries, its financial condition and resources, so as to work out a refunding plan reasonably within the ability of such country to carry out.

In the case of some of the debtor countries it is impossible for them to make payment of their obligations as they now mature. It is impossible for some of them to make payment of the maturing interest. To insist on payment might be disastrous to the peoples of such countries; and besides there may have to be given consideration to the bearing of the adverse foreign exchange rates existing at the time against these debtor countries and which may make it desirable to defer payment of interest.

Under the circumstances I have briefly referred to, it is, I think, clear that by reason of the lack of any authority as to a part of these foreign obligations and the restrictions upon the existing authority as to the others, it is impossible in any refunding, under the varying conditions that exist, to deal fairly with the debtor countries and at the same time protect the interests of this country. To do this, it is essential that the department have full authority as to all such foreign indebtedness to determine the form and terms of the settlements and of the refunding obligations, the rate or rates of interest, the maturity dates, and the right to extend the time for the payment of interest on the indebtedness to be refunded. It is also of importance that the department should have adequate authority to adjust and settle claims against foreign Governments, which are not in the form of bonds or obligations, as, for example, the claim for costs of our military forces of occupation.

I have had prepared a draft of an act of Congress to accomplish the purpose stated and should you transmit this communication to Congress shall be glad to appear before the appropriate committees relative to the situation and the necessity for the authority requested.

Faithfully, yours,

A. W. MELLON, *Secretary.*

The PRESIDENT,
The White House.

Amount of obligations of foreign Governments held by the Treasury for advances made under the various Liberty bond acts.

Country.	First Liberty bond act.	Subsequent Liberty bond acts.	Total Liberty bond acts.	Present interest rate.	Maturity.
				<i>Per cent.</i>	
Belgium.....	\$35,000,000.00	\$312,691,566.23	\$347,691,566.23	5	Demand or overdue.
Cuba.....		9,025,500.00	9,025,500.00	5	Do.
Czechoslovakia.....		61,256,206.74	61,256,206.74	5	Do.
France.....	650,000,000.00	2,300,762,938.19	2,950,762,938.19	5	Do.
Great Britain.....	1,155,000,000.00	3,011,318,358.44	4,166,318,358.44	5	Do.
Greece.....		15,000,000.00	15,000,000.00	5	Do.
Italy.....	175,000,000.00	1,473,034,050.90	1,648,034,050.90	5	Do.
Liberia.....		26,000.00	26,000.00	5	Do.
Rumania.....		23,205,819.52	23,205,819.52	5	Do.
Russia.....	97,500,000.00	90,229,750.00	187,729,750.00	5	Do.
Serbia.....	1,500,000.00	24,675,139.22	26,175,139.22	5	Do.
Total.....	2,114,000,000.00	7,321,225,329.24	9,435,225,329.24	.....

¹ Advances up to Sept. 24, 1917.

Obligations received from the Secretary of War and from the Secretary of the Navy on account of sale of surplus war materials.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					<i>Per cent.</i>
Belgium.....	\$19,000,000.00	.....	Apr. 10, 1919	Apr. 10, 1922	5
	8,392,097.57	.....	Aug. 5, 1919	Aug. 5, 1922	5
	196,483.57	.....	Aug. 21, 1919	Aug. 21, 1922	5
		\$27,588,581.14			
Czechoslovakia.....	5,000,000.00	.....	May 29, 1919	June 30, 1922	5
	5,000,000.00	.....	June 15, 1919	June 30, 1923	5
	4,902,994.94	.....	Aug. 10, 1919	June 30, 1924	5
	2,464,950.38	.....	Oct. 14, 1919	Oct. 14, 1922	5
	1,291,903.85	Feb. 10, 1920	Jan. 28, 1923	5
	1,962,145.37	May 1, 1920	June 30, 1925	5
		20,621,994.54			

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Obligations received from the Secretary of War and from the Secretary of the Navy on account of sale of surplus war materials—Continued.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					<i>Per cent.</i>
Esthonia.....	\$5,000,000.00	.....	June 6, 1919	June 30, 1922	5
	5,000,000.00	.....	June 11, 1919	June 30, 1923	5
	2,213,377.88	.....	June 29, 1919	June 30, 1924	5
		\$12,213,377.88			
France.....	400,000,000.00	400,000,000.00	Aug. 1, 1919	Aug. 1, 1929	5
Latvia.....	2,521,869.32	2,521,869.32	June 28, 1919	June 30, 1922	5
Lithuania.....	4,159,491.96	4,159,491.96	.....do.....	.....do.....	5
Poland.....	10,000,000.00	.....	June 3, 1919	June 22, 1922	5
	10,000,000.00	.....	.....do.....	June 30, 1923	5
	10,000,000.00	.....	July 19, 1919	June 30, 1924	5
	10,000,000.00	.....	July 22, 1919	.....do.....	5
	7,890,939.27	.....	July 31, 1919	.....do.....	5
	5,538,867.71	.....	Oct. 1, 1919	Oct. 1, 1925	5
	3,941,803.61	.....	Oct. 15, 1919	Oct. 15, 1925	5
	2,266,709.66	.....	Apr. 22, 1920	Mar. 27, 1926	5
		59,636,320.25			
Rumania.....	5,000,000.00	.....	June 27, 1919	June 30, 1922	5
	5,000,000.00	.....	.....do.....	June 30, 1923	5
	2,922,675.42	.....	Aug. 13, 1919	June 30, 1924	5
		12,922,675.42			
Russia.....	406,082.30	406,082.30	Aug. 8, 1919	June 30, 1922	5
Serbs, Croats, and Slovenes.....	5,000,000.00	.....	June 13, 1919	.....do.....	5
	5,000,000.00	.....	Aug. 30, 1919	June 30, 1923	5
	10,000,000.00	.....	.....do.....	June 30, 1924	5
	50,350.28	.....	Dec. 20, 1919	.....do.....	5
	231,205.51	.....	Apr. 15, 1920	Apr. 15, 1924	5
	4,646,465.20	.....	Apr. 29, 1920	June 30, 1925	5
		24,978,020.99			
Total.....		565,048,413.80			

Obligations held by the United States Grain Corporation.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					<i>Per cent.</i>
Armenia.....	\$793,733.40	.....	Nov. 26, 1919	June 30, 1921	5
	472,533.00	.....	Nov. 29, 1919	.....do.....	5
	656,190.00	.....	Dec. 10, 1919	.....do.....	5
	748,725.00	.....	Jan. 26, 1920	.....do.....	5
	129,405.00	.....	Jan. 29, 1920	.....do.....	5
	949,665.11	.....	May 20, 1920	.....do.....	5
	181,253.83	.....	June 17, 1920	.....do.....	5
		\$3,931,505.34			
Austria.....	24,055,708.92	24,055,708.92	Sept. 4, 1920	Jan. 21, 1925	6
Czechoslovakia.....	2,873,238.25	2,873,238.25	July 30, 1920	Jan. 1, 1925	6
Hungary.....	1,685,835.61	1,685,835.61	May 29, 1920	.....do.....	6
Poland.....	682,147.50	.....	Dec. 1, 1919	June 30, 1921	5
	146,632.50	.....	Dec. 19, 1919	.....do.....	5
	2,145,539.37	.....	Mar. 12, 1920	.....do.....	5
	931,975.89	.....	Mar. 22, 1920	.....do.....	5
	1,605,665.06	.....	Mar. 26, 1920	.....do.....	5
	1,054,133.66	.....	Apr. 2, 1920	.....do.....	5
	894,591.99	.....	Apr. 9, 1920	.....do.....	5
	951,392.04	.....	Apr. 13, 1920	.....do.....	5
	1,147,319.34	.....	Apr. 23, 1920	.....do.....	5
	828,633.04	.....	Apr. 26, 1920	.....do.....	5
	455,966.98	.....	May 10, 1920	.....do.....	5
	759,134.29	.....	May 12, 1920	.....do.....	5
	448,331.49	.....	May 13, 1920	.....do.....	5
	68,553.18	.....	May 14, 1920	.....do.....	5
	47,377.06	.....	June 2, 1920	.....do.....	5
	30,720.85	.....	July 7, 1920	.....do.....	5
	62,196.98	.....	July 14, 1920	.....do.....	5
	12,152,279.75	.....	July 13, 1920	.....do.....	6
		24,353,590.97			
Total.....		56,899,879.09			

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

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Obligations received by the Treasury from the American Relief Administration.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					<i>Per cent.</i>
Armenia.....	\$8,028,412.15	\$8,028,412.15	June 30, 1919	June 30, 1921	5
Czechoslovakia.....	6,428,089.19	6,428,089.19	.....do.....	June 30, 1923	5
Estonia.....	1,785,767.72	1,785,767.72	Aug. 11, 1919	June 30, 1921	5
Finland.....	3,289,276.98	.....	June 30, 1919	.....do.....	5
	4,992,649.19	.....	July 1, 1920	.....do.....	5
		8,281,926.17			
Latvia.....	2,610,417.82	2,610,417.82	June 30, 1919	.....do.....	5
Lithuania.....	822,136.07	822,136.07	.....do.....	.....do.....	5
Poland.....	10,000,000.00	.....	.....do.....	.....do.....	5
	10,000,000.00	.....	.....do.....	June 30, 1922	5
	31,671,749.36	.....	.....do.....	June 30, 1923	5
		51,671,749.36			
Russia.....	4,465,465.07	4,465,465.07	July 1, 1919	June 30, 1921	5
Total.....		84,093,963.55			

The CHAIRMAN. Mr. Walker, Senator Walsh has just made inquiry as to the present law with respect to the refunding of these foreign debts. Will you kindly take the stand for a moment and inform the committee as to the law and refer the committee to it.

STATEMENT OF MR. JOHN E. WALKER, CHIEF OF THE LEGISLATIVE DRAFTING SERVICE OF THE SENATE.

Mr. WALKER. The authority is under sections 2 and 3 of the second Liberty bond act, approved September 24, 1917. Those sections are as follows:

SEC. 2. That for the purpose of more effectually providing for the national security and defense and prosecuting the war, the Secretary of the Treasury, with the approval of the President, is hereby authorized, on behalf of the United States, to establish credits with the United States for any foreign Governments then engaged in war with the enemies of the United States; and, to the extent of the credits so established from time to time, the Secretary of the Treasury is hereby authorized to purchase, at par, from such foreign Governments respectively their several obligations hereafter issued, bearing such rate or rates of interest, maturing at such date or dates, not later than the bonds of the United States then last issued under the authority of this act, or of such act approved April 24, 1917, and containing such terms and conditions as the Secretary of the Treasury may from time to time determine, or to make advances to or for the account of any such foreign Governments, and to receive such obligations at par for the amount of any such advances; but the rate or rates of interest borne by any such obligations shall not be less than the highest rate borne by any bonds of the United States which, at the time of the acquisition thereof, shall have been issued under authority of said act approved April 24, 1917, or of this act, and any such obligations shall contain such provisions as the Secretary of the Treasury may from time to time determine for the conversion of a proportionate part of such obligations into obligations bearing a higher rate of interest if bonds of the United States issued under authority of this act shall be converted into other bonds of the United States bearing a higher rate of interest, but the rate of interest in such foreign obligations issued upon such conversion shall not be less than the highest rate of interest borne by such bonds of the United States; and the Secretary of the Treasury, with the approval of the President, is hereby authorized to enter into such arrangements from time to time with any such foreign Governments as may be necessary or desirable for establishing such credits and for the payment of such obligations of foreign Governments before maturity. For the purposes of this section there is appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$4,000,000,000, and in addition thereto the unexpended balance of the appropriations made by section two of said act approved April 24, 1917, or so much thereof as may be necessary: *Provided*, That the authority granted by this section to the Secretary of the Treasury to establish credits for foreign Governments, as aforesaid, shall cease upon the termination of the war between the United States and the Imperial German Government.

8 REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

SEC. 3. That the Secretary of the Treasury is hereby authorized, from time to time, to exercise in respect to any obligations of foreign Governments acquired under authority of this act or of said act approved April 24, 1917, any privilege of conversion into obligations bearing interest at a higher rate provided for in or pursuant to this act or said act approved April 24, 1917, and to convert any short-time obligations of foreign Governments which may have been purchased under the authority of this act or of said act approved April 24, 1917, into long-time obligations of such foreign Governments, respectively, maturing not later than the bonds of the United States then last issued under the authority of this act or of said act approved April 24, 1917, as the case may be, and in such form and terms as the Secretary of the Treasury may prescribe; but the rate or rates of interest borne by any such long-time obligations at the time of their acquisition shall not be less than the rate borne by the short-time obligations so converted into such long-time obligations; and, under such terms and conditions as he may from time to time prescribe, to receive payment, on or before maturity, of any obligations of such foreign Governments acquired on behalf of the United States under authority of this act or of said act approved April 24, 1917, and, with the approval of the President, to sell any of such obligations (but not at less than the purchase price with accrued interest unless otherwise hereafter provided by law), and to apply the proceeds thereof, and any payments so received from foreign Governments on account of the principal of their said obligations, to the redemption or purchase, at not more than par and accrued interest, of any bonds of the United States issued under authority of this act or of said act approved April 24, 1917; and if such bonds can not be so redeemed or purchased the Secretary of the Treasury shall redeem or purchase any other outstanding interest-bearing obligations of the United States which may at such time be subject to redemption or which can be purchased at not more than par and accrued interest.

Senator WALSH. Mr. Chairman, I have a memorandum which was furnished yesterday by the Treasury Department and which I think should go in the record. The first table in this memorandum shows cash advances to foreign Governments pursuant to acts of April 24, 1917, September 24, 1917, April 4, 1918, and July 9, 1918, as at the close of business June 27, 1921. That table shows a total of \$9,597,518,741.09.

The second table in the memorandum is "Of which the following repayments have been made"; and that shows a total of repayments of \$162,293,411.85.

The third table in the memorandum shows "interest heretofore paid by each of the foreign Governments on above mentioned advances." That table shows a total interest paid of \$451,736,985.21.

The memorandum is very concise and I think adds to the record and brings it right up to date.

The CHAIRMAN. I think that is true. The memorandum will be inserted at the suggestion of Senator Walsh.

(The memorandum referred to is as follows:)

Cash advances to foreign Governments pursuant to acts of Apr. 24, 1917, Sept. 24, 1917, Apr. 4, 1918, and July 9, 1918, as at the close of business June 27, 1921.

Belgium.....	\$349,214,467.89
Cuba.....	10,000,000.00
Czechoslovakia.....	61,256,206.74
France.....	2,997,477,800.00
Great Britain.....	4,277,000,000.00
Greece.....	15,000,000.00
Italy.....	1,648,034,050.90
Liberia.....	26,000.00
Rumania.....	25,000,000.00
Russia.....	187,729,750.00
Serbia.....	26,780,465.56
Total.....	9,597,518,741.09

Of which the following repayments have been made:

Great Britain.....	\$110,681,641.56
France.....	46,714,861.81
Rumania.....	1,794,180.48
Belgium.....	1,522,901.66
Cuba.....	974,500.00
Serbia.....	606,326.34
Total.....	162,293,411.85

Interest heretofore paid by each of the foreign Governments on above-mentioned advances.

Belgium.....	\$10,907,281.55
Cuba.....	1,282,369.54
Czechoslovakia.....	304,178.09
France.....	129,570,376.13
Great Britain.....	245,557,185.50
Greece.....	784,153.34
Italy.....	57,598,852.62
Liberia.....	861.10
Rumania.....	263,313.74
Russia.....	4,832,354.46
Serbia.....	636,059.14
Total.....	451,736,985.21

STATEMENT OF HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY.

The CHAIRMAN. The committee has with it to-day, in connection with the bill under consideration, the Secretary of the Treasury and certain employees in the Treasury Department whom he has brought with him on his invitation. I will ask the Secretary if he will state to the committee how he would like the proceedings to be conducted.

Secretary MELLON. I am ready to furnish any information. We have copies of all of the documents and everything relating to these obligations.

The CHAIRMAN. Do you desire, Mr. Secretary, to state in your own way to the committee, without interruption, what you might desire to say and then have the members of the committee address to you any inquiries that they wish to make?

Secretary MELLON. I have prepared a short preliminary statement with regard to the authority that is asked for and the reasons therefor.

The CHAIRMAN. Will you kindly read it?

Secretary MELLON. I shall ask Mr. Wadsworth to read the statement.

Mr. WADSWORTH (reading):

The request for authority to deal with the debtor nations relating to their obligations is necessary to the Treasury Department. The department is without authority to consent to any extension of the time for payment of principal and interest of the debts of a number of the debtor nations, and in the case of those where the debts arose from advances out of the proceeds of Liberty loan bonds the authority is, to a large extent, restricted. Without the broad authority provided in the act submitted to you, it would be difficult and in some cases impossible to proceed and procure the new securities in a form that will protect the interests of the Government. The reasons for asking the broad authority which will cover any contingencies that may arise in the negotiations is that it is essential to have the new securities in the most substantial form, so that they may be available to this Government for any future use. It is essential that the authority be complete, so that no question may arise in the future respecting their legality.

In the case of some of the debtor countries it is impossible for them to make payment of their obligations as they now mature. It is impossible for some of them to make payment of the maturing interest. To insist on payment might be disastrous to the peoples of such countries; and besides there may have to be given consideration to the bearing of the adverse foreign exchange rates existing at the time against these debtor countries and which may make it desirable to defer payment of interest.

It is of the utmost importance that the department shall have adequate authority relating to these claims so that the negotiations may proceed and the adjustments and refunding be accomplished in a sound and businesslike manner. The problem is one which has grown out of the war. The authority asked while it may appear broad, is no more than is actually needed. The United States is a creditor nation to the extent of over \$10,000,000, and this great asset must be dealt with by the Government, and if the power is granted to the Secretary of the Treasury it will be used to serve the best interest of the Government and people.

Senator WATSON. Has any statement been made showing the amount of interest due and the amount of interest that has been paid by each nation?

Senator SMOOT. That was just put into the record.

Senator WATSON. I did not understand it that way. Senator Walsh, did you put in a statement showing the amount of interest due and the amount of interest that has been paid by each nation?

Senator WALSH. Yes.

Senator WATSON. I did not understand that your statement was that inclusive.

Senator WALSH. It was the total indebtedness; the amount paid under the indebtedness and the amount of interest due. Evidently the money that has been paid has been applied to the principal rather than to the interest.

Senator LA FOLLETTE. The first statement is, "Cash advances to foreign Governments pursuant to acts of April 24, 1917, September 24, 1917, April 4, 1918, and July 9, 1918, as at the close of business June 27, 1921." Then follows a table showing those advances. That is succeeded by a table the heading of which is, "Of which the following repayments have been made." Then follows a table giving the amounts and naming the countries. Following that there is a table under the heading "Interest heretofore paid by each of the foreign governments on above mentioned advances." There is no table here showing the amount of interest due at the present time.

Senator WALSH. You mean the principal and interest of each country?

Senator WATSON. What I was trying to get at was the amount of interest due by each nation and the amount paid by each nation. From reading the statement I got the impression that the money that had been paid had been credited to the principal rather than to the interest. Senator McCumber last year, when the former Secretary of the Treasury was before the committee, printed a statement, as I recall, showing the amount of interest that was due and the amount of interest that had been paid. What I was trying to get at was the amount of interest that each nation owed us. Is it true that the amount of money paid by these debtor nations has been credited to principal and not to interest?

Mr. WADSWORTH. There has been interest also paid which was credited as interest at the time.

Senator SMOOT. Have you not a list of the amount of interest due up to date from each country?

Mr. WADSWORTH. This statement shows the interest due and unpaid under different categories of loans; that is, whether they were made out of Liberty loans or whether they were made under European relief or for surplus war material.

The interest is figured up to the last interest date, which varies. That is, certain of these notes have their interest date on April 15; others on May 15; others on June 1, etc. So I have taken the last date in each case, the last six months.

The interest due on the Liberty loan accounts, that is, the money that was advanced under the Liberty bond acts to which Senator Walsh just referred, is \$922,550,143.22. That is due on that particular category.

On the relief notes the interest due is \$8,168,687.29.

On the notes received from the War Department and the Navy Department for the sale of surplus war supplies the amount of interest due is \$10,929,130.39.

Upon the notes held by the United States Grain Corporation, which were received in payment for flour which was sold abroad about a year ago under the authority giving the Grain Corporation the privilege of selling, the interest due is \$1,886,795.09.

This makes a grand total not to the present date, but to the last interest date as provided—

Senator REED. Which is when?

Mr. WADSWORTH. It varies in each case. The interest is payable each six months, and I have figured it up to the last date on which interest was due.

Senator WALSH. On each note?

Mr. WADSWORTH. Yes; on each note.

Senator REED. About when would that average?

Mr. WADSWORTH. I should think it would average about the 15th of May or the 15th of April, somewhere in there. The total is \$943,534,755.99.

Senator McCUMBER. That is interest alone?

Mr. WADSWORTH. That is interest.

Senator SMOOT. The interest up to date would be a little over a billion dollars.

Mr. WADSWORTH. Yes, sir.

Senator DILLINGHAM. At what rate is that figured?

Mr. WADSWORTH. Practically everything is figured at 5 per cent. I think there were notes received in the sale of relief supplies that bore 6 per cent interest.

Senator WATSON. That is the amount of interest now due? That does not take into account any interest that has heretofore been paid?

Mr. WADSWORTH. No. The interest was paid on all the Liberty loan advances, except a small amount on the Russian advances, up to the interest dates in the spring of 1919; that is, up to April 15 and May 15, 1919.

12 REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

(The table referred to by Mr. Wadsworth is as follows:)

Total obligations of foreign Governments held by the Treasury and United States Grain Corporation, interest accrued thereon and unpaid, and interest that has been paid into the Treasury.

Class.	Amount of obligations.	Interest due and unpaid.	Interest paid.
Liberty bond acts.....	\$9,435,225,329.24	\$922,550,143.22	\$451,736,985.21
American relief.....	84,093,963.55	8,168,687.29	.....
War Department ¹	562,781,704.14	10,929,130.39	13,420,537.04
Navy Department ¹	2,286,709.66	.....	114,166.67
United States Grain Corporation.....	56,899,879.09	1,886,795.09	.....
Total.....	10,141,267,585.68	943,534,755.90	465,271,688.92

¹ Combined in letter as obligations received from Secretary of War and Secretary of the Navy amounting to \$365,048,413.80.

Senator REED. Mr. Wadsworth, I ask this question in the form of a statement. I have been informed—I do not know whether it is correct information or not—that on some of these loans upon the interest becoming due it was paid out of further advances by our Government. That is, our Government advanced further money, and then that money was devoted to the payment of interest. What are the facts?

Mr. WADSWORTH. I think that is probably true, to a considerable extent.

Senator REED. Can you from your books give us a statement showing exactly what the facts are?

Mr. WADSWORTH. No; because the money that was advanced by the United States to these countries went into their bank balances and they had some other sources of money. They were raising some money here by the sale of securities and Treasury notes, and they went into the same bank balances. So we could not tell exactly what other assets they might have had to pay interest with in addition to the money that the United States loaned them.

Senator REED. You have been with the Treasury Department some time, have you not?

Mr. WADSWORTH. No; only two or three months.

Senator REED. Does not somebody in the Treasury Department know what the facts are? Speaking for myself, I do not want to have any doubt left about this matter; and surely the Treasury when it loaned large sums of money subsequent to the war must have been advised as to what use that money was to be put; and, therefore, although they may have carried the money into a general bank account and then checked out for the interest, our Government must know the substantial facts.

Mr. WADSWORTH. I think it is safe to say that substantially they did use our advances to pay the interest.

Secretary MELLON. Yes; but may I explain the distinction? That interest was paid out of money that had been set apart or committed to these countries. It was not paid out of additional money that had not been authorized before.

Mr. WADSWORTH. No.

Senator REED. That is, Mr. Secretary, as I understand you, certain credits had been established for the benefit of foreign coun-

tries. That is to say, our Government had said we will put to the credit of a certain country, let us say England, so many millions of dollars.

Secretary MELLON. Yes.

Senator REED. Of course, that money had to be put to the credit of that nation under the terms of the various Liberty loan acts. Now, if that money, no matter what kind of a credit had been established, was in fact used with the knowledge of this Government, not to carry on the war, not for any war purpose, but for the purpose of paying interest upon these obligations, that presents a very important point. Of course, my contention is that we had no right to establish credits that went beyond the actual war and beyond war purposes. Others take the other view, and I am not arguing that, but what I want to get at is the fact, how much money paid by this Government to foreign countries subsequent to the war was actually by them in turn devoted to the payment of interest? That is a question that I am sure Mr. Wadsworth or yourself can answer by the time we meet again.

Secretary MELLON. The answer would be that that particular country was entitled to this money. They had it set apart to them and the interest became due and they used that money or other money. There were other moneys that they had. They were together, just as Mr. Wadsworth has explained, and they met the interest as it became due.

Senator REED. But that is not my question. You are saying the answer would be that they were entitled to this money. That is a question to be settled, and I am not asking this in a critical sense at all. What I want to get at is the fact as to how much money they paid in the way of interest of the moneys that were advanced to them subsequent to the war.

Senator SMOOT. It does not make any difference. Their obligations had to be paid. Whether the money was for interest or for the purchase of munitions of war or whether it was for the purchase of the army, it had to be paid, and in the assignment of this money the Treasury Department assigns so much to England, say.

Senator REED. I understand what they did.

Senator SMOOT. I can not see any difference at all whether the obligations of interest they were compelled to pay were paid by their money, collected from their taxes at home, or whether they were paid out of their credit here by our Government.

The CHAIRMAN. The Chair hopes, and is not going to repeat it, because every member of the committee has his rights, that this matter will not be debated. We are here this morning to hear the officials of the Treasury Department. If the Senator from Utah, or others, want to debate it with the Senator from Missouri, we will do that in executive session; and I suggest the Secretary of the Treasury, whose time is valuable, be permitted to go ahead and answer questions. That is what he is here now for and is ready to do.

Senator REED. Well, I have asked one question which I hope will be answered at the next session by a clear statement.

Senator WATSON. Mr. Secretary, have any negotiations been entered into looking to the refunding of this debt that you can publicly state?

Secretary MELLON. Just a preliminary negotiation in the case of Great Britain. That is the only one that has been taken up.

Senator WATSON. Is there any dispute whatever with any nation as to the amount of money that that nation owes us?

Secretary MELLON. I think not.

Senator WATSON. No dispute whatever?

Secretary MELLON. No dispute.

Senator WATSON. And you have all the papers and documents that are essential to make proof?

Secretary MELLON. Yes.

Senator SIMMONS. This question may have been asked you before I came in, Mr. Secretary, but I would like to inquire if there has been any suggestion by any of our allies or European creditors that we take German bonds in exchange for their indebtedness?

Secretary MELLON. No; there has been no such suggestion, so far as the Treasury is concerned or so far as my knowledge goes.

Senator SIMMONS. Has the Treasury Department any intention of entertaining suggestions or propositions of that character?

Secretary MELLON. No. I do not anticipate any such suggestion.

Senator WILLIAMS. What is that?

Secretary MELLON. The question was whether there is any intention on the part of the Treasury to accept German bonds in lieu of the obligations of these Governments.

Senator SIMMONS. You say there has been no proposition and the department is not considering itself inviting or accepting any suggestions of that sort?

Secretary MELLON. That is correct.

Senator REED. Then, may I ask you why this language appears in the bill? I read the context, which is as follows:

That the Secretary of the Treasury, with the approval of the President, is hereby authorized from time to time to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign Government now owing to the United States of America, or any obligation of any foreign Government hereafter received by the United States of America (including obligations held by the United States Grain Corporation), arising out of the European war, into bonds or other obligations of such, or any other, foreign Government.

For the last words, "or any other foreign Government," clearly imply a purpose to accept in lieu of the obligation of the country now running to us the obligation of some other country.

Secretary MELLON. Yes. It was considered desirable to be prepared for any contingency. You can imagine where a country that may be weak in its resources and that country may have, say, German bonds or bonds of some other country. It may add to the security if those other bonds can be accepted, and they naturally will be accepted with the indorsement or guarantee of the country having the primary obligation.

Senator REED. This bill does not say that.

Secretary MELLON. Well, it gives authority. You can not in the bill provide in detail for specific methods. It must be broad enough to meet the conditions at the time. That condition which you speak of may not arise, but there may be that contingency, and it may be desirable to have the authority to accept such security.

Senator REED. I can not quote your exact language, but you said just a moment ago, in substance, that a government might be weak,

and it might be desirable to accept bonds of some other government, and you mentioned Germany as an illustration. So you do contemplate that a situation might arise in which it would be desirable to be authorized to accept German bonds?

Secretary MELLON. There is no specific contemplation. It is simply that we do not know the conditions that may have to be met, and therefore it is desirable, and may be essential, to have authority in that direction.

Senator REED. That is to say, it may be desirable and essential, in your judgment, to accept German bonds in lieu of the bonds of the particular Government that obtained the money from us?

Senator WATSON. If the bonds were indorsed by the Government?

Senator REED. I do not want that put in my question.

Senator WATSON. Well, I am putting that.

Senator REED. Well, you put it as your question.

Secretary MELLON. Naturally, that guarantee would follow. It would follow in any business transaction where a debtor brought some obligation of another person. You would accept that with the guarantee of your debtor.

Senator REED. But that does not follow from the language of this bill.

Secretary MELLON. As I said before, the bill is made broad enough so that any contingency that is likely to arise may be met.

Senator REED. But the bill gives authority to refund or convert obligations held by the United States into the bonds or other obligations of the country giving the obligation originally or any other country. That is clearly a broad authority to take bonds, for instance, of Czechoslovakia and have them canceled and to accept in lieu of them the bonds of any other country which the Secretary of the Treasury thinks it would be advantageous to accept. There is nothing said about any guaranty. On the other hand, the language negatives the idea of a guaranty, because you are to convert the one obligation into the other. Now, do you want the bill left in that shape?

Secretary MELLON. I think it is desirable to have authority broad enough to cover any contingency which might arise and so that in the future these securities that may be taken may be in sound legal form, and so that no question can be raised that there was not authority to take them. It is, after all, a question of sound judgment at the time as to what is best to be done under the conditions that exist in that particular case, and as it would be with any person having a debtor to deal with, to have the authority to do the best with it and to have the securities which he accepts in proper legal shape.

Senator REED. You have heard the question discussed, or known of the question being discussed, by very important public men of the United States accepting German bonds in lieu of the bonds of some of these countries?

Secretary MELLON. I have seen newspaper suggestions.

Senator REED. You know it has been discussed, do you not, by European statesmen that it was part of a plan of some of the allied statesmen?

Secretary MELLON. Oh, no doubt; but there is not any reason for considering that proposition.

Senator SIMMONS. Does not the incorporation of this language in the bill furnish a reason why they should begin to consider it? You say they have made no such proposition up to this time. If you put this provision in this bill, is not that a suggestion to them that we would be open to a proposition of that sort?

Secretary MELLON. I do not think so. Anything that is in this bill does not put any obligation or disposition on the department to accept something that is not a sound business proposition.

Senator SIMMONS. But would it be assumed that we would put this in the bill unless we meant that we would be open to the consideration of a suggestion or proposition of that character?

Secretary MELLON. There is not that which you speak of in the bill. That is, we do not ask for specific authority to accept the German bonds. It is merely that other securities can be accepted. We do not know what they may be. Those countries may have something more local, something that may be sound and may be available, and out of which we can realize quicker and to better advantage than with their own obligations.

Senator REED. What do you have in mind when you say "something local"?

Secretary MELLON. I have not anything specific in mind, but those Governments have certain resources, and they may offer us something in that direction, and it may be of advantage to accept some such suggestion.

Senator REED. Right in line with Senator Simmons's question as to whether this bill was not an invitation to other Governments to offer other securities, I want to read, in connection with the language which I read a while ago, much more significant language. Beginning on line 11 of the bill, the following appears:

arising out of the European war, into bonds or other obligations of such, or of any other, foreign Government, and from time to time to receive bonds and obligations of any foreign Government in substitution for those now or hereafter held by the United States of America.

Senator DILLINGHAM. Senator, would it not be well to read the next three or four lines?

Senator REED (reading):

in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America, and to adjust and settle any and all claims, not now represented by bonds or obligations, which the United States of America now has or hereafter may have against any foreign Government and to accept securities therefor.

Now, clearly, I think, Mr. Secretary, you must have meant that to give you the power to accept the bonds of France—I am illustrating—for the English debt, or the bonds of Italy for the French debt, or the bonds of Germany for any of these debts, or the bonds of Turkey for any of these debts. That is, the power is there.

Secretary MELLON. There was no such thought, and as to that suggestion I think that would be a very remote contingency. I do not imagine that any such occasion will arise. I can not imagine it.

Senator WILLIAMS. Unless the Treasury Department lost its business sense.

Secretary MELLON. Generally, this authority should be given in a broad way because we do not know exactly what conditions we may have to meet. Some of these countries are in a desperate condition economically.

Senator REED. Which ones?

Secretary MELLON. I am not prepared to specify particular countries, but where to-day you could not collect money, nor could you get a security that would have a marketable value or be available. These countries as time goes on will become rehabilitated; the people will get back to work; new generations are coming on and working and the whole condition will change. Those securities that may be put into form now and held will as time goes on ripen and become of real value and be sound and in time become available. The obvious thing to do in those cases is to put them in the best possible shape and get the best possible security, and then keep them in that shape until they become available.

This country is not losing. The interest on the securities will accrue and will perhaps not be paid, but it will accumulate, and the time will come, even in those weak countries, where something of value will be obtained. As to the stronger nations, their securities will sooner become available.

Senator REED. But, Mr. Secretary, if these bonds which are to be taken from weak governments are ultimately becoming good, as you hope, and as we all hope, then what we want is the obligation of that government to the end that when it does become good we will have an obligation that we can collect. Is that not true?

Secretary MELLON. I do not understand that anyone expects anything else than that.

Senator REED. Why is it written in this bill that you can take the obligations of other Governments if you expect to take the obligation of a Government that will not ultimately become good?

Secretary MELLON. We do not expect it. I do not know that that condition will ever arise, but it is desirable to have the authority.

Senator WALSH. Would you object to a provision eliminating the German bonds and securities?

Secretary MELLON. It is not for me to object to whatever form in which you may give this authority.

Senator WALSH. What is your opinion of it?

Secretary MELLON. It is only that I think it is very essential to have the complete authority, so that if something has to be done in the direction of these particular—

Senator GERRY (interposing). Mr. Secretary, am I right in understanding, then, that the Treasury Department has no definite plan now for refunding these obligations and simply wants this power in order to carry out its negotiations without having to come back to Congress for final action?

Secretary MELLON. That is absolutely so.

Senator WALSH. All power ends on the passage of the peace resolution, does it not?

Secretary MELLON. No; the authority under the Liberty loan acts continues.

Senator WALSH. Does it not say in section 2 that—

the authority granted by this section to the Secretary of the Treasury to establish credits for foreign Governments, as aforesaid, shall cease upon the termination of the war between the United States and the Imperial German Government.

Secretary MELLON. Yes; but we are not getting any authority to establish credits. We are not asking any authority to establish credits.

Senator WALSH. But are you not changing credits?

Secretary MELLON. No; but the authority that you speak of—that is, the authority to refund these bonds—is given in that bill, and that is not abrogated by the peace treaty.

Senator WALSH. Only the authority to establish new credits is abrogated?

Secretary MELLON. Yes; which is not in question now.

Senator REED. Do you understand now that you have no authority to establish credits under the Liberty loan acts?

Secretary MELLON. Oh, most certainly. At least, I believe I am right in that. I do not know of any such authority.

Mr. WADSWORTH. There have been no new credits established and none is considered.

Senator WALSH. But you have the right to until peace is finally determined?

Senator REED. Why does not that authority exist now, if it existed any day since the armistice was signed?

Secretary MELLON. If it does exist it is obsolete.

Senator REED. Has any money been paid to these foreign Governments under credits established, or otherwise, since you became Secretary of the Treasury?

Secretary MELLON. Nothing except in the case of \$16,000,000 which had been provided and which had been arranged formally, and the transaction not completed. That was \$16,000,000 which was merely a transfer. It was an amount that had been contracted to be advanced to Italy, and under the arrangement which was carried out after I came into the office that \$16,000,000 was paid to Italy and paid by Italy to one of the other Governments, and that other Government paid it back to the United States. The effect of that transaction was that the \$16,000,000 in question was transferred from Italy to France, but there was not any question about it. The contract had been made and legally made, and there was not anything else for the Treasury to do.

Senator REED. The contract that you speak of was a commitment of this money to France made subsequent to the armistice, was it not?

Secretary MELLON. No; it was an arrangement that had been made and legally made under the act.

Senator REED. Was it made before the armistice or after the armistice?

Secretary MELLON. It was, as I understand, made before the armistice.

Mr. WADSWORTH. May I say a word on that point? The last annual report of the Treasury Department recited the fact that there were certain credits still outstanding to four different nations; that those credits would only be used to make advances to cover commitments that have been made by those nations, but that no new credits would be established. There was a credit in favor of Italy and a credit in favor of France.

As set out at page 55 of the annual report of the Secretary of the Treasury for the fiscal year ending June 30, 1920, the present balance of credit established by the Secretary of the Treasury in favor of the

Italian Government under the authority of the Liberty bond acts is \$34,921,192.93. This was established for the purpose of enabling the Italian Government to make to the British Government certain reimbursements in dollars when there should have been agreed between the British Government and the Treasury the amount of such reimbursements which the Treasury would assent to the Italian Government's making out of advances from the United States Treasury and when the Italian Government should have requested the Treasury to make it advances for that purpose. This amount has been determined to be \$16,695,063.91. The British Government has agreed upon receipt of this amount from the Italian Government to pay it to the Secretary of the Treasury to be applied by him upon French obligations held by the United States Government.

Senator REED. When was that agreement made that is referred to in the matter you have just read?

Mr. WADSWORTH. I could not say, but it was a part of the clean-up of war accounts.

Senator REED. It was after the war?

Mr. WADSWORTH. Yes; I presume it was.

Senator REED. It was a proposition, then, not to enable Italy to carry on the war, but to enable Italy to pay a debt which she owed to France, and France in turn to pay a debt which she owed to Great Britain?

Secretary MELLON. It all arose out of the war.

Senator REED. I understand that it arose out of the war. There were about twenty billion other obligations that arose out of the war, but it does not follow that we were to pay those other obligations.

The CHAIRMAN. The whole transaction was managed and conducted under the Wilson administration, was it not?

Secretary MELLON. Yes.

Senator REED. I am not trying to criticize anybody.

The CHAIRMAN. I know that, Senator Reed.

Senator REED. I am trying to get at a fact. Whether it was done by the Wilson administration or by the present administration, I would be equally free to have my opinion.

The CHAIRMAN. I hope the Senator believes that I feel that way.

Senator REED. I do, Mr. Chairman. What I am trying to get at is this: I want to know the date of that transaction, and I want to ask you if the effect of it was not that the United States gave to Italy money with which she was to pay an obligation that she owed to France, and if that arrangement was not made subsequent to the armistice.

Mr. WADSWORTH. I hesitate to say offhand what this grew out of, but my remembrance is that the United States was advancing money for certain joint purchases and receiving the obligations of these countries; that it so happened when the accounts were adjusted that it found that we had received more from Italy than we had from France, more than was fair to the proper adjustment of the supplies that were delivered, and that this was simply a readjustment of those loans, which if they had been made exact to the correct amount in each case there would have been no need of this transaction.

Senator REED. But how does it happen that Italy owed France, and France, of course, owed England? Italy was settling her debt to France by this transaction, was she not? It was a debt that Italy

owed France and we put up the money. Then France took that money and paid England something she owed England. Then England paid us \$16,000,000 and got a credit from us of \$16,000,000.

Senator McCUMBER. I do not understand that to be the case. That was not the statement. It was credited to France and not to England.

Mr. WADSWORTH. It was credited to France.

Senator REED. Let us see if I can state it correctly, and I want to state it correctly. Italy owed England \$16,000,000. After the war was over we gave Italy \$16,000,000 in cash. That is the effect of the transaction. Italy then paid to Great Britain her \$16,000,000 debt. Great Britain then paid to France. Now, from that on, where does the transaction go?

Mr. WADSWORTH. France paid the exact amount back to us. As a matter of fact, France never had the money.

Senator REED. Let me state it again. Italy owed England \$16,000,000. We furnished this \$16,000,000. Then that \$16,000,000 was put to the credit of Italy, by Italy transferred to Great Britain, and then what took place?

Mr. WADSWORTH. England paid it right back to us.

Senator REED. How did France get in there?

Mr. WADSWORTH. To be credited to France.

Senator REED. Very well; England paid it to us, not on her own account, but on France's account.

So that the United States furnishes \$16,000,000 to pay a debt that Italy owed to England, and we have now the Italian Government's I. O. U. for that money.

Mr. WADSWORTH. And that represents the obligations of France. That was the adjustment of a joint-account purchasing arrangement which had gotten out of balance between these three countries. That was done in order that we might have the right amount of obligations from each country.

Senator REED. Exactly; but these three countries had been buying from the United States on joint account. They had been buying goods from the people of the United States, and they owed a certain amount of money. As between the three partners Italy got more than her share, and the other two partners, France and England, would have had to look to Italy for that \$16,000,000 ordinarily. Whereupon Uncle Sam comes in and furnishes the money with which to adjust this difference of accounts between the Allies after the war is all over.

Mr. WADSWORTH. It was an adjustment of final balances of the deliveries that were made. We found that Italy had received certain supplies over and above the amount of obligations that she had provided. France had received that much less. So it was purely an adjustment account.

Senator REED. But deliveries by whom? They were deliveries by private American citizens and by American corporations, to these three allied Governments.

Mr. WADSWORTH. But of purchases made for the war.

Senator REED. Exactly; of purchases made for the war. Now, they were private citizens that had also furnished vast amounts of material to the allied governments, and the allied governments had received those materials and taken them on private contracts. Do

you mean to say that it is any part of the duty of this Government to step in and furnish money to settle those private contracts?

Secretary MELLON. Will you let me answer that question, please? When I looked into this I found that this adjustment which has been made, and which Mr. Wadsworth has explained, was an obligation of this Government. It had all been contracted for. It was a part of the war negotiations. There was nothing else to do, because it was a debt of honor of this country to settle and complete it.

Senator REED. Where had that debt been made and how is it evident?

Secretary MELLON. Just as Mr. Wadsworth has explained, it originally came out of the advancements made and the supplies that have been paid for, and there was this adjustment, and, as he explained, there was that much to be changed and made the obligation of one Government rather than the other.

Senator SIMMONS. Mr. Secretary, is not this about the situation: This Government agreed to advance to the Allies a certain fixed amount to purchase goods in this country and to charge against each one of the Allies their pro rata part. That money was advanced, except this amount that you mentioned, and in the adjustment between the Allies as to how much they were to pay according to the amount of goods that they had gotten as the result of this credit it was found that Italy owed more and France owed less?

Secretary MELLON. Yes. It was just an incident that grew out of the whole transaction amounting to billions of dollars, and there was this small difference that it took to adjust. The arrangement had already been made that it should be adjusted in that way and it should be carried out.

Senator JONES. Mr. Chairman, I am sure this subject is pertinent to this bill or else the subject would not have been entered upon, but I like to keep in touch with the logic of the statements that are made, and I am unable to see just how it is pertinent to the bill, and I would like to have some one explain just why that is brought in at this time and how it bears upon the subject matter of the bill.

The CHAIRMAN. The Chair is unable to advise the Senator any better than he can advise himself. I take it that we are not here to defend the wisdom of these loans. They belong to a period now over. The question of whether they were wasteful or improperly made or economically made is not before this committee, as I understand it. We have to deal with them, and that is the purpose of this bill, to go into the merits of this transaction with Italy.

Senator JONES. That is the thought I had.

The CHAIRMAN. The Senator from Missouri could consult Col. House's memoirs.

Senator REED. The Senator from Missouri comes pretty nearly knowing what he is driving at and does not need any satire from the chairman.

The CHAIRMAN. I hope the Senator does not feel that way.

Senator REED. I so construe it. This is pertinent to this bill, in my judgment. I do not care to argue it; I shall present it on the floor of the Senate at the proper time. The Secretary has just answered Senator Simmons's interrogatory in the affirmative. That interrogatory, in effect, stated the situation to be that there had been an arrangement by the United States for the joint purchase by

the Allies of goods in this country; that the accounts were to be adjusted between the Allies; and that some of the Allies got more goods than they were entitled to. Now, is not this the fact: That no such arrangement was ever made; that what was done was this: The Secretary of the Treasury agreed to a commitment to England of a certain amount of money, to France of a certain amount of money, and to Italy of a certain amount of money; that then these countries, acting for themselves and by an agreement between themselves, purchased goods in this country; that at the end of the war they proceeded to a settlement between themselves and found that Italy had drawn more than her share; and that thereupon this Government, out of the commitment made to Italy, advanced the \$16,000,000? Is not that the situation, Mr. Mellon?

Secretary MELLON. You are pretty nearly stating the same thing.

Senator REED. Oh, it is a very different proposition.

Senator SIMMONS. My question assumes, Mr. Secretary, that the Government had entered into an agreement with those three Allies of ours to advance them a bulk sum of money. Senator Reed's question is based upon the theory that we had agreed to loan England so much, France so much, and Italy so much. The bases of the questions are different in that respect.

Secretary MELLON. It came about in this way: When the commitments were made, they were made in proportion to what those Governments required on the statements of their requirements, and, therefore, it was necessary when they came to the settlement to make the adjustment.

Senator WATSON. Mr. Secretary, I asked you awhile ago whether or not you have made any overtures to any of these nations with respect to the settlement of these claims, and you said none, with the exception of England. Have any of those nations made any suggestions to you or any overtures looking to the settlement of their debt?

Secretary MELLON. Not any of them.

Senator WATSON. None at all?

Secretary MELLON. None. There has been no correspondence about it whatever, so far as I know.

Mr. WADSWORTH. May I say here that there have been inquiries from some of the smaller Governments—Finland and Poland—as to what could be done in connection with their notes which matured or the interest which was due. But they have made no proposition; they have simply come in and said, "We realize that this is due, and we are in great difficulties about it." We, of course, have no authority as regards the loans to those Governments to say anything except that they must pay up.

Secretary MELLON. We have no authority whatever in respect to those Governments.

Senator SMOOT. Mr. Wadsworth, take Finland as an example: Was it not a fact that Finland wanted to borrow some more money and nobody would advance her money when her obligations were falling due on June 30 of this year to the Government of the United States, and she wanted to have an extension of time on her obligations?

Mr. WADSWORTH. She made the suggestion that we should take new notes which would bear date five years from now for the principal and the interest.

Senator REED. How much did Finland owe?

Mr. WADSWORTH. About \$8,000,000.

Senator REED. Finland did not exist when this war was ended, did she?

Mr. WADSWORTH. This was money that was advanced under the relief act.

Senator REED. I understand you to say, Mr. Secretary, that there has been no general plan discussed for the handling of this business which is referred to in the bill. Now, I want to read you a statement here and see whether there is any truth in it or not. I am reading from a newspaper clipping of June 17. It is an article by Robert B. Armstrong.

(The article referred to is here printed in full, as follows:)

NEW BONDS TO PUBLIC LIKELY—ADMINISTRATION MAY FUND ALL FOREIGN DEBTS—NATION MAY OR MAY NOT GIVE ITS GUARANTY—TREASURY DEPARTMENT NOW HAS NO POWERS.

WASHINGTON, June 17.—In announcing the decision of the Cabinet to request from Congress legislation to authorize the Secretary of the Treasury to fund and otherwise secure the obligations of foreign nations to the United States for moneys and supplies advanced, President Harding to-day confirmed the outline of several days ago of the manner in which the foreign loans were to be handled.

The discussion of the proposed plan took up the greater part of the Cabinet meeting and, while the administration has worked out in considerable detail what it desires to do in connection with the ten billion or more in loans, it must have the cooperation of both the Senate and the House to make the plan possible.

Briefly stated, the plan is to have all the foreign Governments, which now owe the United States money for supplies, place the obligations in the form of long-term bonds, these bonds to become the property of the United States Government, to be held by it or later offered to the investors of the United States in such amounts and at such times as it sees fit. The legislation asked will permit the Secretary of the Treasury to guarantee the principal and interest if, in his judgment, such course is desirable.

INTEREST OVERDUE.

All of the loans now due the United States carry with them a lot of overdue and accrued interest which, under the plan contemplated, will be included in the bond issue proposed to represent these loans.

The tentative plan contemplates that all of the accrued and overdue interest is to be either included in the amount of the bond issue to be pledged by the Governments which owe the large sums to the United States or that this interest be extinguished by increasing the rate on the long-time securities enough to absorb all the back interest and at the same time make the securities bear a higher rate of interest and become, therefore, desirable for the investors of the United States.

If this is done it is probable that the United States will not guarantee the bonds, but sell them on the interest rate and the security of the Government issuing them.

HAS NO AUTHORITY.

As it is now the Secretary of the Treasury has no authority to whip these loans into good bankable shape, and has neither the specific nor implied authority to permit any obligations to remain unpaid either in principal or interest. If Congress will clothe the Secretary of the Treasury with broad powers under general limitations to fund all these loans, and also authorize him to refund them from time to time if need be, the plan can be worked out in such a way to stabilize conditions both here and abroad, and such action probably will correct to a great extent the wide fluctuations in foreign exchange which has been unsettled ever since the war began.

Such an operation as contemplated in making this Government and the investors of the United States holders of long-term securities of the leading powers of the world will permanently intrench the United States as the creditor nation of the world.

I have read you the whole article, and I want to ask you if there is any truth in that statement?

Secretary MELLON. There was nothing so far as concerns any suggestion or anything originating with any foreign Government. There has nothing of that sort been suggested. There have been a great many suggestions generally by the press and by people of different methods of treating the indebtedness and of taking care of this accumulated interest, etc. There was a suggestion made and that was one which the President thought was a good one. It has not any significance so far as any particular government is concerned or so far as this refunding is concerned, excepting that it seemed a good business proposition. That suggestion was this. Here we had certain accumulated interest that it may be necessary or desirable to extend or defer the payment of. The thought there was this, that if, instead of adding that interest to the principal it was added to the rate of interest during the whole life of the bonds to be accepted, the refunding bonds, it would give those bonds a larger rate of interest than they otherwise would have. For instance, if we were going to accept refunding bonds at 5 per cent that we add this accumulating interest into an additional rate of interest and say, for example, that that made that rate of interest 6 per cent. That, then, would make the bonds more marketable. They would be bearing a higher rate of interest, and the benefit would come in the future from the fact that they bore a higher rate of interest and would be more marketable than they might be if they were at a lower rate of interest. That was merely an incidental suggestion.

Senator REED. You say you think that would be good business?

Secretary MELLON. It should be considered.

Senator REED. Let us put that in plain language. European Governments owe the United States in principal ten billions of dollars and in interest one billion dollars. The proposition is to have them issue their bonds not for eleven billions dollars bearing a rate of interest, but to have them issue their bonds for ten billion dollars bearing a higher rate of interest, the one billion dollars to be devoted to the raising or increasing of that higher rate of interest. Thereupon these bonds will be sold to investors. In that event Uncle Sam loses the one billion dollars of interest, does he not, that has already accumulated?

Secretary MELLON. If he does not sell the bonds, he gets the same money that otherwise would be gotten. Now, the matter of selling the bonds is a matter of judgment of Congress when the time comes.

Senator REED. But it will not be a matter of judgment of Congress under this bill; it will be a matter of judgment of the Secretary of the Treasury.

Secretary MELLON. No; this bill does not give authority to sell these bonds that are received, and if it did give that authority—

Senator REED. Under that arrangement—

Senator DILLINGHAM. May the witness complete his answer?

Secretary MELLON. I was going to say that there are no conditions now wherein anything of that sort could be accomplished. There is not any kind of a market.

Senator REED. Under that arrangement if Great Britain owes us four and a half billion dollars in principal and she owes us seven hundred million dollars in interest, she would issue her bonds to us

for four and a half billion dollars, not for five billion two hundred million dollars. These bonds would have a high rate of interest. Thereupon Great Britain could immediately cancel the whole obligation by paying us the principal and thus escape the interest; could she not? That is just what an Englishman would do, is it not? He is a pretty smart fellow.

Secretary MELLON. I do not think he would do so under present conditions. But that is merely one of a great many suggestions, and the President thought it was a good one and talked of it. There may be circumstances where it would be desirable to make that kind of an adjustment.

Senator REED. In these discussions with the President was the question of the substitution of the obligations of other Governments for the present obligations discussed?

Secretary MELLON. I did not understand that question.

Senator REED. You say the President did discuss this one plan which we have just been over?

Secretary MELLON. That was his talk with the newspaper people.

Senator REED. Did you never discuss this question with the President?

Secretary MELLON. The letter that is with the committee was my letter to the President explaining the situation to him.

Senator REED. What I am trying to get at is whether the Cabinet or the President discussed the question of the substitution of the obligations of one government for the indebtedness of another.

Secretary MELLON. There has been no situation to discuss. There may have been just a general discussion of all these suggestions.

Senator REED. I am not asking you, Mr. Secretary, whether you discussed the proposition as to whether you would do a particular thing with Germany or a particular thing with England but whether you discussed the proposition of the transfer of this indebtedness from one Government to the other by an exchange of obligations.

Secretary MELLON. The treatment of these loans or anything in the direction that you speak of was not a subject of discussion with the President or the Cabinet, excepting as relates to this act—that is, this question of requesting of Congress the authority to deal with it. That was discussed, and, of course, these other questions and suggestions that have been made came in, as always such questions do when there is a subject under discussion.

Senator WALSH. The authority sought in this bill, Mr. Secretary, is subject to the approval of the President?

Secretary MELLON. Yes.

Senator WALSH. Is there any reason you can state why it should not also be subject to the approval of the Senate the same as all foreign treaties and contracts are? I want to get your views on that.

Secretary MELLON. It would not be practicable. You could not come to a conclusion with the Government. If it had to come to Congress it would not be a practical method of settling these claims. I do not see how it could be done. It would take years to do it if it were done in that way.

Senator REED. We might have under some Secretaries of the Treasury two or three more billion dollars shoveled out—not under this one, I am very sure, and I would not reflect on Mr. Mellon for the world—but this is a matter that runs to the Secretary of the Treasury without any limiting clause.

Senator SIMMONS. I want to ask you one question with some matters propounded by Senator Reed. In refunding under the plan that the Senator was inquiring about, in which you incorporate the interest with principal at the time when the bonds were issued and charge a higher rate of interest, I do not know whether I understood you to mean that you would incorporate the interest already accrued or would remit that interest.

Secretary MELLON. You do not understand the situation. There is no policy and there has been no policy adopted. That was only a suggestion that that would be a practicable way of putting these bonds into marketable shape.

Senator SIMMONS. Which was it? That you would include the accrued interest in the bonds as a part of the principal or that you would remit accrued interest?

Secretary MELLON. Oh, no. I have not even heard the suggestion that we would remit the interest. Remitting would mean canceling it.

Senator SIMMONS. I understand that, of course; that is the meaning of the word, and I thought that was the way you understood it, Senator Reed.

Senator WATSON. That is the way Senator Reed put it.

Senator REED. Oh, no; I did not—thereby include the one billion in the interest, and that then it would immediately take up its obligations then at the face and thus escape the accrued interest.

Senator SIMMONS. I did not understand it that way. Suppose that is true and that you do issue the bonds in that way. Will not that bond be due at a specified time, and could that bond be paid at the option of the debtor Government if the creditor Government was not willing to accept the payment at that time?

Secretary MELLON. It would depend upon the terms that you agreed upon in the bonds.

Senator SIMMONS. If you did that, would you enter into an agreement with the debtor nation that they might liquidate that at any time? If you did, the result that the Senator described would follow.

Secretary MELLON. That is a speculative situation.

Senator SIMMONS. The reason I asked that, Mr. Secretary, is this: I have understood that a long-term bond could carry a better rate of interest than a short-term bond; that it was because it was regarded as a more desirable thing. But a long-term bond would amount to nothing if the debtor had the option to liquidate it at any time he pleased.

Secretary MELLON. It is customary in these long-term bonds to make them optionable at certain times. The Liberty loan bond issues have certain options in them, and that has been customary. But as to these obligations, we have not come to that; we do not know what those particular Governments will ask us to do, and when they do ask us we are not obliged to do other than what might seem to the best interests of our Government.

The CHAIRMAN. As I understand it, Mr. Secretary, each Government will have to be treated separately and as a distinct proposition.

Secretary MELLON. Yes; the obligations are entirely separate, and we expect to take up one after another.

Senator REED. Can you tell me the amount of interest that England is now involved, or can Mr. Wadsworth tell me the amount of obligations Great Britain now owes us?

Mr. WADSWORTH. I will do that in a moment.

Senator JONES. Recurring to the question of the substitution of obligations, would the situation or not be this, approximately: That the present debtor nations would not be particularly anxious to substitute obligations of another Government if the debtor nation had to guarantee the obligation of the other Government. But in the present contingency, when this money is due the United States, would it not be advisable from a business standpoint for this Government to accept obligations of other governments provided those obligations were guaranteed by the present debtor nation?

Secretary MELLON. Yes.

Senator JONES. Is not that about the situation?

Secretary MELLON. Yes.

Senator JONES. And assuming that they were German obligations, we would not be releasing—

Secretary MELLON (interposing). We would be adding.

Senator JONES. We would be adding to the security of our Government and getting payments which Germany might make on those obligations paid direct to the United States rather than through France, England, or Italy to the United States, when those Governments might see fit to make the payment?

Secretary MELLON. Yes.

Senator JONES. And then would there be any objection, Mr. Secretary, to our amending the bill by providing that in the event of such substitution that the present debtor nations should guarantee the obligation?

Secretary MELLON. I do not think so. I do not think that this authority should be limited, because you can not foresee what may arise. For instance, as I said before, there may be a country which in itself is not only in bad shape economically and financially, but that there is not any prospect of developing and rehabilitating; and suppose that that Government may have some securities which it might be able to release, it might be desirable to take that security and release the Government. I can imagine where that contingency might arise. I think it is not likely to happen; I do not know of any instance where there is any prospect of it happening, but there might be a case where a particular Government that might be in that unfavorable condition that they would have something where they would say, "If you will release us, we will turn this over," and we might not be able to get that security without releasing. I can understand and you can understand, as a business proposition, that there could be such a contingency where it would be desirable to make that change. I do not think it is likely to happen.

But, so far as limiting this authority is concerned, why limit it? If we are going to go wrong in judgment and not do the right thing, it is not likely to be on some particular point that you would limit us; we would go wrong on something more important than that.

And so I think that if you are giving authority that the authority ought to be complete.

Senator JONES. Mr. Secretary, do you not believe that in the present state of the public mind that it would be of advantage to the administration to have some such limitation as that in this law, because it has been circulated throughout the country that there is a movement on foot to have this country take the obligations of

Germany and release our present debtors, and if the contingency of accepting other securities free from any obligation of our debtors is remote, do you not think that it would have at least a good psychological effect to put a limitation in this bill to that effect?

Secretary MELLON. I think it is very much better to take that which is the logical and sound action, to give this authority where this authority can be used to the advantage of the Government and the people, and then any untoward psychological condition in the public mind will soon disappear.

Senator WILLIAMS. Or will not exist?

Secretary MELLON. Yes.

Senator REED. England owes us, I am informed by Mr. Wadsworth, in defaulted interest \$407,303,000. What is the reason England can not pay us that interest to-day when she can expend \$700,000,000 enlarging her navy?

Secretary MELLON. I do not know about her expending \$700,000,000 enlarging her navy, but you can understand that it may be much easier to expend money at home where it does not require gold, where it does not require a rate of exchange that every dollar paid costs \$1.60, or whatever it is—it is an entirely different proposition, because in the one case she has to pay in actual gold, in the other case it is merely a transaction between her own citizens. She buys something from domestic sources.

Senator REED. But the English gold sovereign is at par and exchange, less a small carriage and insurance rate, is it not?

Secretary MELLON. What is that?

Senator REED. The English gold sovereign is not suffering from the rate of exchange, is it, except that there is always a little rate of exchange?

Secretary MELLON. The gold sovereign is a gold sovereign, but if they do not have those gold sovereigns, then they must go out and buy exchange to make the equivalent of the gold sovereigns.

Senator REED. I understand that; that is to say, if they have inflated and depreciated currency, they must make that up. But if England was paying us in gold, she would not have to pay \$1.60 in exchange, would she?

Secretary MELLON. But, to answer your question, she does not require gold sovereigns to pay for battleships at home.

Senator REED. But if she would give us \$407,000 in gold, do you think she would be any worse off than if she expended at home \$765,000,000 on her navy?

Secretary MELLON. You can answer those questions in many ways. It might be much better if, because of giving us that gold, which she could not do practically—could not ship us the gold, but she would go out and buy exchange, and the very fact of her buying that exchange and putting up the rate of exchange she to that extent protects her own trade, because it makes it harder for her people to buy in this country; the higher the exchange the more difficult it is for them to buy goods from us. So it is conceivable that by paying us that money she would do very much better and benefit herself rather than using the money at home.

You can answer those questions in many ways.

Senator REED. You do not mean to say—and I drop the question if this merely explanatory suggestion—that England could not pay us in gold if she had the gold? Now, has she not got the gold?

Secretary MELLON. I do not know exactly. She has a limited amount of gold, like all countries have. The amount of actual gold is limited.

Senator REED. Are you in favor, under any circumstances, of accepting German bonds?

Secretary MELLON. No; on the question of any circumstances. I can imagine circumstances. If somebody came to me and offered me some German bonds, I might take them.

Senator REED. I mean for these debts?

Senator WATSON. Excuse me, Senator.

Senator REED. Yes.

Senator WATSON. I think if we are going to take up and discuss the financial condition of each nation and our relations to that nation and what we propose to do in regard to the indebtedness of that nation to us, that it is of such a delicate nature that I think we should go into executive session and discuss it. There are perhaps a good many things that the Secretary would want to say behind closed doors that he would not say in the open, and I have discovered something of a reticence on his part this morning.

The CHAIRMAN. The Chair understands, if the Senator will pardon me a moment, that the Treasury officials, including the Secretary, are entirely willing to encounter the most complete publicity in this whole matter.

Senator WATSON. I did not know how they might feel about it.

The CHAIRMAN. If the point is raised and if the Secretary thinks he has any communication which ought to be heard in executive session, at his request we can proceed to such session.

Senator WILLIAMS. Mr. Chairman, I would like to ask the Secretary this question: Of course, I will not name any nation, but are there not one or two peoples in Europe who owe us money which has been advanced during the war, whose bonds are now and are apt to be for 30 or 40 years worth less than the German bonds?

Secretary MELLON. I think that is so.

Senator WILLIAMS. And then if we trade one for the other we would be benefiting ourselves.

Senator REED. Do you think that is true, Mr. Secretary, that we would benefit ourselves by taking the German bonds?

Secretary MELLON. I would say this, I do not know of any such country that possesses German bonds. There may be such. When it comes to the question—

Senator WILLIAMS (interposing). But, Mr. Secretary, to complete my question, suppose that one of those countries were to receive as part of this reparation indemnity a certain amount of German bonds, and that country offering these bonds should be virtually bankrupt to-day, and were to offer to give us the bonds instead of their bonds, is it not conceivable that there might be a case where it would be to our interest to effect the exchange?

Secretary MELLON. Certainly.

Senator WILLIAMS. Let me ask you one more question: Is it not conceivable, Mr. Secretary, that some of these little countries which are nearly bankrupt that they own a railroad, where if they would agree to give us other securities in the shape of their railroad obligations instead of their government obligations that it would pay us to effect the exchange?

Secretary MELLON. That is conceivable.

Senator REED. If we then were to take a large block of these German bonds, thus becoming the creditor of Germany, partly with France and England and Italy, would not that put us in the position where we would be almost compelled to aid them in the collection of their debts in order to get our own?

Secretary MELLON. Those speculative questions, it seems to me, scarcely have bearing. We are not contemplating taking any large block of German bonds. No one has suggested giving us German bonds.

Senator LA FOLLETTE. Have any of the debtor countries suggested substituting the bonds of other countries for their obligations?

Secretary MELLON. No.

Senator LA FOLLETTE. I am not referring to German bonds now but to the bonds of any other country.

Secretary MELLON. No. No other country that I know of has made any suggestion to substitute or to give us any other bonds.

Senator REED. Mr. Secretary, was it not seriously put to the country and to the world a little while back that the Belgian debt to the United States should be wiped out by the acceptance of German reparation bonds?

Secretary MELLON. Oh, there was a time when there were many suggestions of that kind—

Senator WATSON (interposing). It was also suggested in a good many quarters that the debt be entirely canceled, was it not?

Secretary MELLON. Yes.

Senator REED. I am speaking of a serious proposition made by the Government of England or by their spokesmen, and has not that plan been considered, and is not that plan now under consideration?

Secretary MELLON. No; not to my knowledge, in any way.

Senator WALSH. If the members of the committee have finished with questions, I move that we now adjourn.

Senator McCUMBER. I just wanted to ask the Secretary one question: In any event there could be no objection to accepting German bonds as collateral security if any bonds of any other nation that was hard up and could not pay at the present time in not releasing that Government in the slightest degree?

Secretary MELLON. I do not think so.

Mr. WADSWORTH. May I say one thing in response to Senator Reed's question? There was a suggestion worked out, I think, in Paris during the peace conference that for all money which had been borrowed by Belgium up to the day of the armistice, England, France, and the United States might at some future time take German bonds; in other words, Germany should assume the debts Belgium had incurred during the war. Mr. Wilson, I think, presented such a plan to the Congress, and I think it has been presented in England and France, but has never been acted upon. Perhaps that is what Senator Reed referred to.

Senator WILLIAMS. Did you say that Wilson had presented it to Congress? You mean presented to him at the conference in Paris?

Mr. WADSWORTH. I think he made some announcement about it, that that was a suggestion.

Senator WILLIAMS. That fact is recorded in two or three books that purport to be an account of the Paris conference, that such a

proposition was made but was not accepted and not seriously discussed.

Senator REED. Just this one question, and then I am willing for a motion to be made to adjourn. I am going to ask the Secretary if he knows now, and if not, if he will ascertain before we renew the hearings, if it is not a fact that the British Government since the war has advanced to the Argentine Government \$50,000,000? I would like to know that fact in connection with this investigation.

Secretary MELLON. I will look into that and be able to answer the question.

The CHAIRMAN. The committee will now adjourn, subject to call by the chairman at an early date.

(Thereupon, at 12.10 o'clock p. m. the committee adjourned to meet at the call of the chairman.)

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES ^{CONGRESS} SENATE

SIXTY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 2135

A BILL TO ENABLE THE REFUNDING OF OBLIGATIONS
OF FOREIGN GOVERNMENTS OWING TO THE UNITED
STATES OF AMERICA, AND FOR OTHER PURPOSES

THURSDAY, JULY 14, 1921

PART 2

Printed for the use of the Committee on Finance



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1921.

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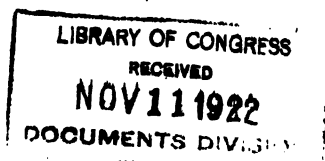
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REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

THURSDAY, JULY 14, 1921.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10.30 o'clock a. m., in room 312, Senate Office Building, Hon. Boies Penrose presiding.

Present: Senators Penrose (chairman), McCumber, Smoot, La Follette, Dillingham, Watson, Sutherland, Simmons, Williams, Gerry, and Reed.

Present, also, Hon. Andrew W. Mellon, Secretary of the Treasury; Hon. Elliott Wadsworth, Assistant Secretary of the Treasury; and John B. Walker, Esq., chief of the legislative drafting service of the Senate.

The CHAIRMAN. The committee has before it especially this morning the co-called refunding bill, and is sitting to hear some further statements from the Secretary of the Treasury and those who accompany him, who are invited more particularly at the request of Senator La Follette, who has some inquiries to propound.

Senator La Follette, will you please state your inquiries, if you desire to address the Secretary?

Senator LA FOLLETTE. Mr. Secretary, on page 61 of the last report of the Secretary of the Treasury, reference is made to a letter received by the Treasury Department from Representative Fordney treating of the matter of these foreign loans, and considerable stress seems to have been laid upon that correspondence, but the letter does not appear in the report of the Secretary. Can you furnish the committee with a copy of that letter?

STATEMENT OF HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY.

Mr. MELLON. I have here the copy of Mr. Fordney's letter. You mean Mr. Fordney's letter?

Senator LA FOLLETTE. The letter of Mr. Fordney which is referred to on page 61 of the report of the Secretary of the Treasury.

Mr. WADSWORTH. I think this is it [handing letter to Secretary Mellon].

Secretary MELLON. Yes.

Senator LA FOLLETTE. I will be glad to have that made a part of the record.

The CHAIRMAN. Do you want it read to the committee?

Senator LA FOLLETTE. Yes; let it be read.

Secretary MELLON. This is addressed to Mr. Houston, then Secretary of the Treasury [reading]:

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, D. C., April 2, 1920.

HON. DAVID F. HOUSTON,
Secretary of the Treasury, Washington, D. C.,

DEAR MR. SECRETARY: Referring further to my letter to your predecessor under date of January 19, 1920, wherein I undertook to express the opinion of the members of the Ways and Means Committee that, at the time of the enactment of the Liberty loan acts, no thought was given to the possibility of the suspension of interest payments on foreign loans and that there was no intent on the part of Congress to grant or imply such authority of the Secretary, I am instructed by the committee to state that upon further investigation a majority of the committee are of the opinion that there is no legislative bar to your proceeding with the extension plan last submitted by you to the committee, although such contingency was not in the mind of the committee at the time the legislation authorizing foreign loans was framed.

With reference to the policy of the plan, the committee feels that in such matters as these, where no legislation is pending, it is not in accordance with the best practice that standing committees of Congress should express an opinion or advise executive departments as to the course to be pursued.

In the light of the foregoing, therefore, I will be pleased to have you consider my letter of January 19, 1920, as withdrawn.

Very truly, yours,

J. W. FORDNEY, *Chairman.*

Senator LA FOLLETTE. Are you able to say, Mr. Secretary, whether any action has been taken by the Secretary upon the first letter which Mr. Fordney had written?

Secretary MELLON. I am not very clear on that.

Senator LA FOLLETTE. This second letter is a qualification of the opinions expressed in the first letter, and I am just inquiring now whether action was taken upon the first letter by the Treasury Department, if anyone here knows?

Secretary MELLON. Here is Mr. Houston's reply to Mr. Fordney.

The CHAIRMAN. What was the date of the first letter?

Secretary MELLON. April 2, 1920. And Mr. Houston then writes to Mr. Fordney [reading]:

APRIL 2, 1920.

MY DEAR MR. FORDNEY: I have the honor to acknowledge the receipt of your letter of April 2 in reply to my letter of March 18, 1920, relative to the postponing of the collection of interest on foreign obligations held by the Treasury. I wish to thank the committee for its consideration of this matter. I have cabled Mr. Rathbone to proceed with the negotiations accordingly.

Yours, very truly,

D. F. HOUSTON.

HON. JOSEPH W. FORDNEY,
*Chairman of Committee on Ways and Means,
House of Representatives.*

The CHAIRMAN. This correspondence refers to discussions over a year ago in the past administration, does it not?

Secretary MELLON. Yes.

Mr. WADSWORTH. I should say on that, Mr. Secretary, that the negotiations began in the autumn of 1919, in a very tentative way. They worked along up to the point where the Secretary of the Treasury had submitted his letter to Mr. Fordney outlining the program for an extension—

Senator LA FOLLETTE (interposing). That is, what negotiations began?

Mr. WADSWORTH. In Europe. Mr. Rathbone was talking—

The CHAIRMAN (interposing). Who conducted those negotiations?

Mr. WADSWORTH. Mr. Rathbone, one of the Assistant Secretaries of the Treasury.

The CHAIRMAN. On behalf of the administration of President Wilson?

Mr. WADSWORTH. Yes.

The CHAIRMAN. The proposition then emanated entirely from Mr. Wilson and the Secretary of the Treasury under him?

Mr. WADSWORTH. Yes.

Senator LA FOLLETTE. And what date did those negotiations begin?

Mr. WADSWORTH. Mr. Rathbone went abroad, I think, in September, 1919.

Senator LA FOLLETTE. Was that his mission to conduct negotiations with respect to these claims?

Mr. WADSWORTH. He was very busy with certain reparation matters and cleaning up the various liquidation matters also, representing the Treasury; and then he began to get into his negotiations along in the autumn. In October, November, and December—

Senator LA FOLLETTE (interposing). When did he discontinue his negotiations there?

Mr. WADSWORTH. He came home in May. Nothing came of his negotiations and he came home.

Senator LA FOLLETTE. Excepting the exchange of views over there and the communications that he made to the Treasury Department with regard to it?

Mr. WADSWORTH. There was no commitment of any sort on either side.

Senator LA FOLLETTE. I understand.. Now, when were the negotiations taken up following his return, by the Treasury Department here, if you know, and by whom?

Mr. WADSWORTH. By Mr. Mellon.

Senator LA FOLLETTE. And at what time?

Secretary MELLON. About one month ago.

Mr. WADSWORTH. A little more than that, perhaps.

Secretary MELLON. A little over one month ago.

Senator LA FOLLETTE. With what country?

Secretary MELLON. The conference was held with the ambassador of Great Britain.

Senator LA FOLLETTE. Your first conference?

Secretary MELLON. Yes.

Senator SMOOT. Were there any further conferences with any other countries?

Secretary MELLON. There have been no other conferences excepting that we prepared to furnish to the ambassador some data in relation to the claims.

Senator LA FOLLETTE. What data did you furnish?

Secretary MELLON. I believe it covered the progress that had been made by Mr. Rathbone, which gave to the ambassador the details of that conference or those negotiations which had been conducted by Mr. Rathbone. It was merely putting him in touch with the situation.

Senator LA FOLLETTE. Was that because he was a new man here?

Secretary MELLON. Yes.

Senator LA FOLLETTE. The negotiations had been conducted with his predecessor, or his predecessor had been kept informed of the progress of the negotiations up to that time, probably; was that the idea?

Secretary MELLON. Well, he requested further information, which was given to him.

The CHAIRMAN. Then, your only relations with the transaction was to furnish information, as I understand it?

Secretary MELLON. Our conference was merely one of preliminary discussion of the situation, and in that there were these questions as to how far the previous negotiations had gone; and so I said to the ambassador, "We will give you that information," which was really obtainable from the report of the Secretary of the Treasury, but we gave the same information practically.

Senator SMOOT. You gave him whatever information you had?

Secretary MELLON. Yes.

The CHAIRMAN. That consisted chiefly of correspondence, did it?

Secretary MELLON. No; we did not go into the details in that way. But it was more a question of what claim had been referred to and matters in that respect relating to the amount of the claim and of the interest.

Senator SIMMONS. May I ask the Secretary a question in response to some suggestions made by the chairman?

The CHAIRMAN. Will the Senator speak a little louder?

Senator SIMMONS. I desire to ask Mr. Wadsworth right here for the purpose of the record, some questions with reference to a statement made in reply to some inquiries by the chairman.

Mr. Wadsworth, the chairman asked you with reference to these negotiations being taken up by the former administration—he said "by the Wilson administration"—through Mr. Rathbone. I wanted to ask if Mr. Rathbone went to Europe with any definite proposition from this Government, or did he go there merely to sound those Governments out with reference to the settlement of this foreign indebtedness?

Mr. WADSWORTH. I understand that he had no definite program when he went over. He carried on his conversations with a Mr. Blackett, who had been here representing the British treasury, and they had a number of conferences in Paris and London, but Mr. Rathbone took over no program.

Senator SIMMONS. He was not authorized to make any settlement, but simply to find out what was the situation, and what the Governments over there were willing, able, and supposed to do?

The CHAIRMAN. What was his primary and special purpose in going to Europe?

Mr. WADSWORTH. He represented the United States, and he was unofficial representative on the Reparations Commission, to begin with; and then, as that work began to get lighter, he was able to pick this other negotiation.

Senator WATSON. Did he make a report when he came back, Mr. Wadsworth?

Mr. WADSWORTH. He kept reporting to the Treasury here from time to time by letter and cable as to the situation as it developed, and all those reports were kept here, and, I think, copies of them all are now in the files of the Judiciary Committee of the Senate.

Senator WATSON. If he went away without a program, did he come back with a program definitely proposed by the Treasury Department?

Mr. WADSWORTH. He had worked up sufficiently so that the Secretary of the Treasury wrote that letter which appears in the annual report, outlining the plan for deferring interest for three years, and then providing for an issue of bonds. I remember that.

Senator SIMMONS. Was it the plan of this Government, or the proposition of the foreign Governments?

Mr. WADSWORTH. It is the plan Mr. Blackett and Mr. Rathbone had worked out, and this letter which Mr. Fordney replied to—you just heard his reply—was in reply to a letter from Secretary Houston to Mr. Fordney outlining the suggested way of handling this.

The CHAIRMAN. Who was Mr. Blackett?

Mr. WADSWORTH. He was representing the British Treasury.

Senator WATSON. Has that letter of Secretary Houston to Chairman Fordney ever been introduced here?

Senator LA FOLLETTE. No.

Senator WATSON. Can we have copies of that letter?

Senator LA FOLLETTE. I would be glad to have it in the record. That is the second letter that was introduced.

Senator WATSON. The original letter of Mr. Fordney that he afterwards withdrew.

The CHAIRMAN. That has just been read to the committee.

Senator McCUMBER. No; the preceding one.

Senator LA FOLLETTE. That is the second letter.

Senator WATSON. Mr. Chairman, that reminds me—and I want to inject it here—that Senator Lodge called my attention to the fact that there are several chests full of documents relating to these foreign loans in possession of the Committee on the Judiciary, and he says, of course, the Judiciary Committee has no business with those papers; that if they do not belong to the Finance Committee, they belong to the Foreign Relations Committee. But he thinks they all belong to the Finance Committee, and he suggests to me that I suggest to this committee that you, the chairman, ask the Judiciary Committee to turn those papers over to us; and I suggest that that request be made, in order that this committee may have possession here of any of those papers that may be of value.

Senator LA FOLLETTE. I think, Mr. Chairman, that we ought to have possession in this committee of all communications and all records that pertain to these foreign loans, and to negotiations regarding deferred payments.

Senator SIMMONS. Both made through the past administration and the present administration?

Senator LA FOLLETTE. Both administrations; so that the committee can have before it everything pertaining to this subject. It may point the way as to what would be done by the Secretary of the Treasury if this unlimited power that he asks for were conferred upon him.

The CHAIRMAN. You refer to the archives mentioned by Senator Watson?

Senator LA FOLLETTE. I do not know anything about those. I do not know whether those are complete or not. But I think we ought to have here a complete record of this whole transaction from beginning to end before we act upon this bill.

The CHAIRMAN. That means the records and archives and files in the Treasury Department.

Senator LA FOLLETTE. Yes. I mean the records of the Treasury Department that relate to this business. If they have furnished copies of those records to some committee that is making no use of them and that committee can turn them over to this committee, it would save any delay in their making other copies. I did not know about these records of which Senator Watson speaks.

The CHAIRMAN. Would not the State Department likewise have some record?

Senator LA FOLLETTE. I have no doubt they have. I have rather definite information that there is important matter there that this committee ought to have before it. I believe that it ought to issue an order for the turning over to the committee of all records of those two departments that bear in any way upon these matters, and all correspondence.

Mr. WADSWORTH. That request was made by the Judiciary Committee in their investigation last winter, and the Treasury prepared copies of very voluminous documents—I think there were three or four packing cases—and they are up here now; and that was made ready by my predecessor, but he told me that everything he could think of that would bear upon this matter was in those cases.

Senator LA FOLLETTE. My inquiry is if you happen to know whether they were all dumped into those cases without any order or system, and in that way transmitted to the committee, where they would be, of course, of little use to the committee, it comes to my mind now that Senator Reed, who was a member of that committee, and I believe was somewhat active in that investigation, complained that those documents had been sent down in such form that it was impossible for the committee to make very much effective use of them. I think if we are to have any records from the department that they ought to come in an orderly form, and putting them together in that way, of course, would not delay the department at all.

Mr. WADSWORTH. We could send a man here to put them in order, if we could get at them.

The CHAIRMAN. Will you have that done, Mr. Mellon?

Secretary MELLON. Yes.

The CHAIRMAN. Have them put in order, indexed so far as possible, separated and segregated, and sent to the committee?

Secretary MELLON. Would I understand, Mr. Chairman, that the boxes be brought to this committee?

Senator WATSON. I think, Mr. Chairman, you will have to make a demand on the Judiciary Committee.

The CHAIRMAN. How would it do for me to appoint a subcommittee—Senators Watson, LaFollette, and Simmons—to confer with the chairman of the Judiciary Committee with a view of having those papers transferred to our committee?

Senator SMOOT. The Treasury sent them to the Judiciary Committee, and I think it would only take a request to get them here.

Senator WILLIAMS. A request from you as chairman of this committee is all that is necessary.

Senator WATSON. I think just a request from you, Mr. Chairman, to Senator Nelson would have them transferred.

(At this point Senator Reed entered the committee room.)

The CHAIRMAN. Senator Reed, the question has arisen concerning the transfer of certain papers, sent to the Judiciary Committee by the Treasury Department at your request, to this committee for its information. Can you inform this committee as to the status of those papers, their availability and their utility, even in this investigation?

Senator REED. You refer, I presume, to a large number of papers which was sent over with reference to these foreign loans?

The CHAIRMAN. Yes.

Senator REED. Here are the facts; you can judge for yourself: The former Secretary and his assistants gave testimony before the committee for some days, at different times; and finally the committee asked them to send over all of the files with reference to these loans.

Senator WATSON. How did the Committee of the Judiciary happen to be investigating that question?

Senator REED. There was a bill pending providing that there should be no more moneys paid out on any of these foreign loans by the Secretary of the Treasury. I introduced the bill. We tried to get at the facts. I did not want to criticize anybody, but it did not seem that anybody could give us a clear statement with reference to each of these loans, and we asked for the papers with reference to them, and I really thought it was a matter of petulance—they finally brought over five big boxes full of all the papers and, of course, that involved a long search; and then the committee instructed the secretary of the committee and my secretary to read these letters during the interval of the adjournment and pick out the ones which they thought were pertinent to these loans. That was done, and then we ordered them printed confidentially, and that is the confidential print [exhibiting pamphlet to the committee]. There were 96 or 100 of them printed.

Senator WILLIAMS. Ninety-six what?

Senator REED. Copies printed for confidential use of the committee, and I presume of the Senate. I have been trying ever since to get these released and made public. I have never been able to get action on it.

At the last meeting we had where the matter was under consideration, they referred them to the Secretary of State and asked him to examine them and see whether there were any that he thought should not be made public. He wrote back and said he thought many of them should not be made public, without specifying them; that these documents related to dealings between this Government and foreign countries, and that it was customary not to make public that kind of correspondence without the consent of the foreign Government. And there we are. That correspondence goes into the whole question. I have not read every letter contained in this print which I hold in my hand. This is finely printed, and it is a big job; but I have glanced through them, and I think that they set out as far as there is any record the circumstances attending these various loans, and I think disclose a situation—I am just expressing my own opinion—wholly unjustifiable and illegal. There are other members of the committee who probably take the other view of it. I think they belong certainly to the Senate.

Senator WATSON. And to the Finance Committee?

Senator REED. And I think they certainly ought to be given to the Finance Committee, and I think the whole Senate is entitled to them,

and, so far as I am concerned, I think the public is entitled to them. This is the public money that we are dealing with.

Senator WATSON. I understand the former Secretary of the Treasury was not very much in favor of making some of these documents public.

Senator REED. He did not express himself in that way. He said he thought they ought to be carefully examined by the committee before they were made public, and that there were probably some of them, or parts of them, that ought not to be made public.

Senator SIMMONS. Senator Reed, of course, that would not mean that Members of the Senate or committees of the Senate should not have free access to them?

Senator REED. I thought they printed one for each Member of the Senate, and that that was the reason they printed 96 or 100 copies.

Senator SIMMONS. Could there be any objection to having more copies of that document you have in your hand printed for use of this committee?

Senator REED. I think there are enough to supply this committee now in the safe of the Secretary of the Judiciary Committee.

Senator WATSON. When were these printed?

Senator REED. They were printed two or three months ago.

Senator WATSON. Mr. Secretary, have you ever seen a copy?

Secretary MELLON. I have not.

The CHAIRMAN. Senator Reed, this correspondence, as I understand it, simply refers to transactions long since over and closed. These debts to the United States exist and are admitted and conceded, and the question before the committee now is how to deal with their refunding or repayment?

Senator REED. Of course, Mr. Chairman, there are two questions involved. One is the question what we are going to do with reference to the loans we have made, and I understand that to be the proposition immediately before the committee. Then there is the other question of the nature of these loans, what they were made for, and connected with that is the fact that there are some credits or what they call "credits" of, I think, \$129,000,000 the last time I heard about it—it may have been changed since—still standing for these foreign governments.

I am not making any breach of confidence—and the Secretary is here to correct me if I should be in error—when I say that the method seemed to have been this: That if one of these foreign governments would apply to the Secretary of the Treasury for money, instead of turning the money over to them, in most instances he did what he called "Established a credit for them." That is, he said, "I will set aside to you and give you a credit of so many millions of dollars."

Then, as that Government wanted the money, why, it drew for it and got the money. There still stands—or did stand awhile back, the Secretary will know—some \$33,000,000 to the credit of Greece, and nearly \$5,000,000 to Liberia's credit; and the question we had under consideration was whether any more of that money should be paid out, and I have never gotten very far with it in that committee. We were making quite excellent progress, I thought, with the Republicans of the committee pretty keen on the scent until we changed the administration; and then the Democrats, who had been

holding back before, evinced a little more interest than the Republicans.

The CHAIRMAN. We were kept in the dark about it until lately.

Senator REED. Yes; I understand.

Senator WATSON. I never heard about these documents there until Senator Lodge called my attention to the chests full of them up there, to which I had just called this committee's attention and was suggesting that the chairman of this committee should make a request of the chairman of the Judiciary Committee to turn all of those documents over to us, since our committee manifestly has jurisdiction of this subject, then that would carry this publication (referring to pamphlet shown to the committee by Senator Reed) with it, would it not?

Senator REED. I do not believe anybody will have to go outside of this, and here are the circumstances. I have a secretary who is a lawyer, and a pretty good lawyer, who is familiar with the situation, and he, together with the clerk of the committee, and I think one or two of the other clerks, undertook to read this vast bulk of papers and to pick out everything that they thought was pertinent; and the probabilities are very strong that you will find all you want in that book.

Secretary MELLON. May I say a word or two on that question whether there are any commitments or obligations now, so far as the Treasury is concerned, to pay out any more money to any of these Governments. The Treasury does not recognize that there is any such obligation of any nature to pay any additional amount of any of the Governments; so far as these loans are concerned, the advancements have been completed.

Senator REED. Did you not pay some money on the commitments since you came into office?

Secretary MELLON. That was referred to at the other hearing, and that has been done. I am speaking now of the present situation.

Senator REED. That is, you hold now that no matter though there was a credit of \$5,000,000 placed to the credit of Liberia and only a few thousand drawn, that you are under no further obligations to pay any money to Liberia?

Secretary MELLON. Not so far as the Treasury is concerned.

Senator REED. Then, who would be, if not the Treasury?

Secretary MELLON. It would be a matter now of action by Congress if any further advancement is made to Liberia.

Mr. WADSWORTH. May I say a word, Mr. Secretary?

Secretary MELLON. Yes.

Mr. WADSWORTH. There is a credit in favor of Czecho-Slovak Republic of \$6,072,834.36. That is a credit which was established to assist the Government in repatriating its troops from Siberia. That work was carried on by the War Department and the Shipping Board; and there are claims now before the Czecho-Slovak Government of perhaps \$3,000,000 to \$4,000,000—I have not seen them all—from the War Department and the Shipping Board together, for money they have expended in getting those men home.

Senator REED. Money we have expended?

Mr. WADSWORTH. That is to say, the War Department and the Shipping Board expended, on the basis of the fact that the Czecho-Slovak Government could get enough from the Treasury under this

credit to reimburse the War Department and the Shipping Board. That is a commitment which exists.

Secretary MELLON. That has not been brought to my attention.

Senator REED. Pardon me. That means this, that you are getting this \$3,000,000 from the United States Treasury and turning part of it over to the Shipping Board to reimburse it and part of it over to the War Department to reimburse it. So that the money does not go abroad?

Mr. WADSWORTH. We pay it to the Czecho-Slovak Government and they, in turn, pay their bills to the Shipping Board and the War Department, and we receive the obligation of the Czecho-Slovak Government.

Senator REED. So there is that much more money to go out?

Secretary MELLON. It does not in that sense go out of the country. There are no advancements that go to a foreign Government to remain there?

Mr. WADSWORTH. No.

Senator SMOOT. What is the total amount?

Mr. WADSWORTH. The total they might draw is \$6,072,834.26—a balance of about a \$10,000,000 credit.

The CHAIRMAN. Mr. Wadsworth, what document are you reading from?

Mr. WADSWORTH. The Treasury's annual report.

Then, there is another credit in the Treasury's annual report in favor of France for \$50,496,977.24. I think there will be no payment required on that.

Senator SMOOT. But there is a commitment?

Mr. WADSWORTH. If France comes in with a claim which she says was incurred in connection with the war.

Senator LA FOLLETTE. What is that commitment based on?

Mr. WADSWORTH. Any contract she made during the time of the war and which she was enabled to make in this country and finance it, because the Treasury had established this credit.

Now, so far as we know, France has no more claims to put in, so that that \$50,000,000 will probably come off the books as a credit without any advance being made.

Senator WATSON. What is the date of that commitment?

The CHAIRMAN. The last report of the Secretary of the Treasury, for the year ending June 30, 1920, and the facts referred to are found on page 55, and the clerk will put a copy of the annual report before each Senator immediately.

Senator REED. But the commitment has been made, and if France presents or has to pay claims of the character this commitment was intended to cover, then you will regard the Treasury as obligated to make that good up to the amount of \$50,000,000?

Mr. WADSWORTH. I understand so.

Secretary MELLON. But, Mr. Wadsworth, is it not safe to say that we do not regard that there is any further amount to be paid that will go out of this country to any foreign Government? So far as we understand, the French Government is not asking for any further advancement?

Mr. WADSWORTH. We so understand, yes; but I am making completely sure, because if they should turn up with some claim, we would then be morally bound to advance them the money.

Senator McCUMBER. They would be claims originating in the United States to pay bills for contracts made in the United States?

Mr. WADSWORTH. Yes.

Senator McCUMBER. And your belief is that inasmuch as no claim has been filed for two years, there can not be any outstanding claim in this country against the record?

Mr. WADSWORTH. Yes.

The CHAIRMAN. What kind of claims did they have in mind when this balance was allotted to France?

Mr. WADSWORTH. This is the balance of a very large credit when they were buying munitions, horses, wheat, blankets, and all sorts of things over here during the war. When they needed the money, they would come to the Treasury, and the Treasury would advance it.

Senator REED. But France has not yet released us from that obligation, formally, whether it be valid or invalid?

Mr. WADSWORTH. Not formally; but as a practical matter we made a general settlement with France about a month ago on a great many claims between the War Department and the Navy Department and others, and I can not conceive that they will claim anything more.

Senator WILLIAMS. This Czechoslovakia matter to which you referred, that is in essence just a matter of crediting one department of the Government and debiting another, is it not?

Senator LA FOLLETTE. That is not the way you stated it before, Mr. Wadsworth. You stated that the money would be paid to them and that then they could pay the Shipping Board and the War Department. I want to have you be definite about that. Is that money going out of this country first and into the hands of that Government, to be repaid by that Government to the Shipping Board and the War Department?

Mr. WADSWORTH. That would be a simultaneous transaction that would probably take place right at my desk.

Senator LA FOLLETTE. And the money would not leave the country at all. I should think that the transaction ought to be closed out in that way.

Mr. WADSWORTH. We do go through the formality of paying it to them, and they hand us their obligation, but they never get the money.

Senator REED. Of course this question lies back of it all, and that is whether there was any authority in the Treasury or in the Government to agree with Czechoslovakia to pay these bills. The Czecho-Slovak Government did not exist as a government at the time that these acts were passed authorizing the loans and did not exist as a government until after the war was over. That presents a very different question as to whether we are to pay this bill in this way or whether we are to insist on their taking their own money out of their own treasury and coming over and settling with the Shipping Board and the War Department.

Mr. WADSWORTH. May I go on with this?

The CHAIRMAN. Yes; you may proceed.

Mr. WADSWORTH. There was also a credit in favor of Greece of \$33,236,629.05. This was the result of an agreement between this Government and the French and British Governments to advance

certain money to Greece during the war. Certain advances were made and then the Government of Greece changed and there have been no more payments made. We are unable at the present moment to say just what the status of that credit is because it is an account with two other Governments, and there would have to be a negotiation in which all three contracting parties agreed as to what they should do.

Senator REED. Permit me to ask a question or two about that. As a matter of fact, England, France, and the United States made an agreement to stand back of Greece, provided Greece would do certain things in this war—I will not say what they were. The Greek Government changed. England and France refused to advance any money, but the United States did advance her part and Greece is still claiming that a very large sum ought to be advanced to her from all three of these parties. Is not that the situation?

Senator LA FOLLETTE. You did not state, Senator Reed—

Senator REED. I did not get an answer to my question.

Mr. WADSWORTH. I did not know you were asking me that question, Senator.

Senator REED. I am trying to ask you that question.

Mr. WADSWORTH. I think that at the time we made our advances under these contracts both England and France also made advances, and then all three Governments stopped at the same time.

Senator REED. Is not this about the fact?

Under the various Liberty loan acts which provided that the Secretary of the Treasury could, with the approval of the President, make loans to foreign governments then engaged in war with enemies of the United States for the purpose of prosecution of the war, there was a credit established for Greece of \$48,236,629.05. Of this credit there was advanced to Greece up to November 15, 1920, a total of \$15,000,000.

Senator WATSON. By whom?

Senator REED. By the United States. And "there now remains on the books of the Treasury Department a credit in favor of Greece of \$33,236,629.05." That is correct that far, is it not? I am going to read on.

No money whatsoever was advanced to Greece during the actual progress of the war.

That is true, is it not?

Mr. WADSWORTH. I could not say about that.

Senator REED (reading):

The first advance was made to Greece December 15, 1919. The next advance was January 16, 1920, of \$5,000,000. The third advance was September 17, 1920, of \$5,000,000.

Senator LA FOLLETTE. May I inquire whether or not you are reading from a statement made by the Treasury?

Senator REED. No; I am reading from a statement of the epitome of these documents, which I think sets out the facts. So that the advances that were actually made were made subsequent to the armistice, a year subsequent, nearly.

Loans were made to Greece under an entirely different plan and system from those made to any of the other Allies. In February, 1918, England, France, and the United States made an agreement with Greece whereby these three countries agreed to underwrite a Greek loan of 750,000,000 drachmas, which have the same value as francs. Each of the three countries agreed to make its share of one-third of the loan. This

750,000,000 drachmas loan was the outside limit of the loan to be made. That is, it was the maximum amount for the 1918 expenditures.

In pursuance to this loan Greece agreed to keep a certain number of men in the field and to make other military and naval operations.

This loan was to be paid to Greece upon certain conditions. Those conditions were, first, the money was to be paid if at any time during the war the credit of the National Bank of Greece fell below 100,000,000 francs. Second, if the money was not paid during the war, then it was all to be due and payable six months after the conclusion of peace.

A further condition was added that in no case were the three countries referred to to pay more than one-third of the expenditures for 1918 as shown by vouchers from the Greek treasury, which vouchers were to be passed upon by the financial commission appointed for this purpose.

On the strength of this promised loan, the Greek Government issued a bond issue which it sold to its own people.

This is comment, but I will put it in the question:

The correspondence shows that though the United States has up to date advanced \$15,000,000 on this credit so established, neither of the other countries have advanced any of their share. All that they have done was to establish book credits.

The correspondence also shows that when our advances were finally made, they were made not to take care of war purposes, but to rehabilitate Greece. In fact, all of the proposals for advances mentioned the fact that the advances are to be used for rehabilitation and relief purposes. The Treasury Department only agreed to these advances when they were assured that they were to be made for expenditure in the United States.

There is nothing in the correspondence on Greece showing any itemized statement as to how this money was spent other than a statement in French, giving merely the names of the parties who received the money, no statement being given of what the money was spent for.

This is further comment, but I will put it in for the context.

It must also be borne in mind with reference to the Greek loan that this loan was made to the Venizelos Government, which government has since collapsed, and the former King Constantine, who had been ousted from the throne by Great Britain and France because of his pro-German leaning, has been returned to the throne by a popular plebiscite of Greece.

At the time of the political disturbances in Greece, just prior to the return of Constantine, a fourth advance of \$5,000,000 was asked, but this request has never been granted by the Treasury Department. The correspondence with the committee only runs to January 14, 1921, and it does not show a direct refusal on the part of the Treasury Department of the United States of this request.

Now, is that not about the situation with regard to Greece?

Mr. WADSWORTH. I should say it is, from my memory of the matter.

Senator REED. Well, you could not say, then, that the Greek loan was closed, could you? They may come in at any time and demand that \$33,000,000, and you may feel that we are obligated to pay it.

Mr. WADSWORTH. I think the Secretary could state whether or not he would.

Secretary MELLON. I should not consider that that now would be an obligation of the Treasury to make further payment.

Senator REED. Why not, Mr. Secretary, if it be true that Greece entered this war upon the express stipulation that three Governments, including our own, would advance to her certain moneys upon three conditions; first, that she put a certain number of men in the field; second, that they would pay money if at any time the credit of the Bank of Greece fell below a certain point; and, third, that itemized statements of the cost should be furnished? Suppose that Greece were to bring you in to-day these itemized statements of expenditures that have been incurred during the war, and assuming that this contract is a legal contract how could we escape making them?

Senator WATSON. If that be true and if we are bound to make the payment, why your question?

Senator REED. My question is to get at the Secretary's attitude. I am not criticising, of course, but the Secretary has said that he can see no way in which we are obligated, and I can see, if there is a legal obligation to begin with, how we might be obligated.

Secretary MELLON. Under the existing conditions I do not believe that the facts are such that there is an obligation here to make any further payment.

Senator WATSON. Does the Senator from Missouri believe that there is an obligation?

Senator REED. You want to ask me questions, and I am trying to clear up the attitude of the Secretary of the Treasury—I am interested in it—in a most courteous way, of course.

Senator WATSON. Certainly; we all understand that.

Senator REED. Now, if the Secretary were to say to me that they had seen correct accounts of those expenditures during the war and they knew from them that no more money could be demanded from us, I would understand that; but as long as we have no information that Greece has presented those claims, nor the amount of those claims, I can not see how anybody can say that we are perfectly free from any obligation to Greece.

Mr. WADSWORTH. Greece has been entirely unable to present these statements so far, and nothing that they have produced complied with the agreement, but we do not know that they might not.

Senator REED. They are still trying to produce something? They are still making claims, are they not?

Mr. WADSWORTH. They have not for some months.

Senator REED. The last thing they did was to assert a claim. If you do not like that term, use whatever term you wish.

Mr. WADSWORTH. They came in and said they would like more money.

Senator SIMMONS. When was that?

Mr. WADSWORTH. About two or three months ago.

Senator McCUMBER. Did they get it?

Mr. WADSWORTH. They did not.

Senator McCUMBER. Why?

Mr. WADSWORTH. Because their statements were not satisfactory and never have been.

Senator SMOOT. England has not paid them anything, and France has not paid them anything.

Secretary MELLON. I think it is safe to say, as I stated before, that there is no situation in the Treasury which makes it at all probable, or in any way likely, that any such question is going to arise; that there is going to be any request even for a further advancement.

Senator REED. How about Liberia? When did they withdraw their claim?

Secretary MELLON. Liberia has not withdrawn any claim. Liberia is still requesting that advancements be made, but the Treasury does not regard the request as being one that the Treasury is under any obligation to comply with.

Senator REED. Would you kindly enlighten me a little about that? Why does the Treasury not regard itself as obligated in this instance? There was a credit established to Liberia for \$5,000,000. They drew only a small sum.

Secretary MELLON. Mr. Wadsworth can explain that better than I can.

Mr. WADSWORTH. The negotiation for this credit was entirely between the State Department and Liberia, not between the Treasury and Liberia, as in the case of all other credits. The Treasury has, therefore, taken the position that until the State Department came to us and said, "We have as a government a commitment to Liberia to pay this money," the Treasury was not in any way committed to pay out that money.

Senator REED. But suppose the State Department came to you to-morrow and said, "We have had negotiations with Liberia. We have reached an agreement. We told Liberia that they should have this \$5,000,000, and we told the Treasury so and the Treasury put it to their credit." Now what are you going to do with that case?

Mr. WADSWORTH. I understand, informally, that the State Department has determined not to make such a statement.

Secretary MELLON. I think that is the situation.

Senator REED. Then it comes to this, that you do not regard, having put money to the credit of a nation, as having in any way committed our Government?

Mr. WADSWORTH. It commits them absolutely if they come up with a claim for the cash, in accordance with the terms under which this credit was extended.

Senator REED. And those terms are not known to you, are they?

Mr. WADSWORTH. Not very definitely.

Senator REED. But you do know, in a general way, that Liberia had mortgaged her revenues as security to an English bank and a French bank, and that a sort of trusteeship had been established to collect those revenues, that trusteeship being semigovernmental at least in its character; that everything went along very fine until the war came on, and then the revenues of Liberia fell off and negotiations were entered into to have the United States take that loan over, and a credit was established of \$5,000,000 to Liberia, out of which there was enough money taken to pay the expenses of the Liberian delegates to the peace council, and the rest of it stands there. That is about the situation, is it not?

Mr. WADSWORTH. I think that is the situation.

Senator REED. You do not intend to say to us that that is not a situation that might ultimately involve the payment of this money, do you?

Mr. WADSWORTH. Only if the State Department came forward and said that they felt there was an absolute commitment on their part to produce that money for Liberia.

Senator WILLIAMS. That is the amount that has been already paid?

Mr. WADSWORTH. No; the additional amount.

Senator WILLIAMS. For the payment of what?

Mr. WADSWORTH. Well, whatever commitments may have been made by the State Department.

The CHAIRMAN. When was that commitment made by the State Department? Who was the Secretary of State at the time?

Mr. WADSWORTH. Mr. Lansing was Secretary at that time.

The CHAIRMAN. Then the present officials of the State Department have no official cognizance of or participation in this proposition?

Mr. WADSWORTH. No; it was made in an unusual way by a direct order from the President. That was the only credit that was extended in that way.

Senator WATSON. That is, the Liberian credit was made by a direct order of the President?

Mr. WADSWORTH. Yes.

Senator WATSON. And no other commitment was made in that fashion?

Mr. WADSWORTH. No other.

Senator SUTHERLAND. What was the date of that Liberian credit?

Mr. WADSWORTH. September 9, 1918.

The CHAIRMAN. This is one of the legacies, then, from the past administration.

Mr. WADSWORTH. They all are.

Senator SIMMONS. Is not everything that was done in connection with the war a legacy from the past administration?

The CHAIRMAN. No; not at all. The Republican Party participated in a number of very beneficial and patriotic acts, but with those of an autocratic and secret nature we are not having any relation, so far as I know.

Senator REED. Let it be understood that in all that was virtuous the Republican Party was an active participant, and in all that was bad, the Republican Party's hands are clean.

The CHAIRMAN. There is a large element of truth in that.

Senator REED. I think we might as well admit it, in view of the majority.

Secretary Mellon, did you not take the position the other day when you were here that all of these commitments were contractual in their nature and that we were not at liberty to change or cancel them?

Secretary MELLON. So far as I know, they were absolute commitments. But if, on the other side, the terms were not complied with, then we were not under any obligation to actually advance the money.

Senator REED. Well, are you prepared to say to the committee this morning that you will pay out any more money on any of these commitments?

Secretary MELLON. So far as I know, there is no situation where that question is liable to arise.

Senator REED. But that is not my question, and I know you make the answer in the best of faith as your judgment. But you are not prepared to say that under no circumstances or conditions would you pay out any more money?

Secretary MELLON. Oh, I could not say that there might not be some circumstance or condition with which I have not been advised. Of course there is always a possibility of something arising in that way, but I do not believe there is any such situation.

Senator REED. We were down to Italy; we had in the Treasury's last report a credit of \$34,921,192.73. What is their credit now?

Mr. WADSWORTH. We do not consider that they have any credit.

Senator REED. What happened before the account was closed?

Mr. WADSWORTH. That \$16,000,000 was advanced that we spoke of at the last hearing.

Senator REED. So that that \$34,000,000 credit was reduced to approximately, you say, \$18,000,000?

Mr. WADSWORTH. That was taken off the books.

Senator REED. And that is taken off and closed up with Italy's consent?

Mr. WADSWORTH. Yes.

Senator REED. So that the account with Italy is now finally concluded?

Mr. WADSWORTH. I understand so.

Senator REED. Well, you know what the facts are, do you not?

Mr. WADSWORTH. I have not actually seen the entries, but I think I can confidently say that Italy has no longer any credit on the books of the United States.

The CHAIRMAN. When was that formal settlement made, Mr. Wadsworth?

Mr. WADSWORTH. The 30th of March of this year.

The CHAIRMAN. In Mr. Houston's report he states that it is an open account, but of course subsequently it was closed. I want to state to the committee—I know it is not the proper time to do so—that I do not desire to introduce any partisanship into this discussion. I think it should be treated on the broadest lines of patriotism, but it seems to me there is an effort being made to bring up collaterally and frequently matters having no connection whatever with the granting of certain authority to the Secretary of the Treasury; and when a proposition like that of Liberia is talked about in the committee room it is notoriously an autocratic legacy of the past, and I do not want the impression to go forward that the present management of the Treasury Department has any connection whatever with the transaction.

Senator WILLIAMS. Mr. Chairman, we might just as well have entered of record an admission that everything that occurred prior to the 4th of March last occurred under a Democratic administration.

The CHAIRMAN. I would not say under a Democratic administration; I would say under an individual Democratic administration.

Senator WILLIAMS. Well, I would say a Democratic administration.

Senator REED. I think that the disposition of the chairman to keep politics out of this is so manifest that it hardly needs to be asserted, and I want to say for myself that I have not asked these questions with an attempt to reflect on anybody, past or present; but I do think when we come to the question of extending a power to the Secretary of the Treasury, whether it be Mr. Mellon or his successor, to settle these loans, that the question of our accounts with these Governments, in what shape those accounts are, is a pertinent question which any business man would take into consideration if he were making a settlement with a creditor.

Senator SMOOT. Mr. Chairman, the Secretary was called here this morning to answer certain questions, and I would like to have him proceed now.

The CHAIRMAN. The Senator from Wisconsin, I suspect, has some other questions that he wants to ask.

Senator LA FOLLETTE. Yes; I had noted some other matters that I wanted to inquire about. I will ask Mr. Wadsworth if he is familiar with the matter that was submitted to the Judiciary Committee—perhaps you have already stated, Mr. Wadsworth—whether you know

the contents of the various chests that were sent down in response to the request of that committee?

Mr. WADSWORTH. I have been through the papers in order to post myself as to exactly what happened, as far as I have been able to in a limited amount of time.

tion. I would like to inquire of you if there is among those papers a Senator LA FOLLETTE. Then, perhaps, you can answer my question of a request made by one of the foreign Governments for the entire cancellation of their obligations to this Government?

Mr. WADSWORTH. Mr. Chairman, that is rather an international matter. I do not know that there is anything very confidential about it, however.

The CHAIRMAN. Mr. Secretary, I believe personally, and I think the committee believes, in the fullest publicity of these transactions, unless there is some very strong reason why publicity should not be given, which the committee would respect if submitted.

Mr. WADSWORTH. I have here a cablegram from the British chancellor, which says: "Turning to more general considerations"——

Senator REED. What is the date of it?

Mr. WADSWORTH. February, 1920. [Reading:]

Turning to more general considerations it is evident that a financial crisis in America would gravely endanger the incipient recovery of continental Europe. It is impossible to foresee the consequences. With the Continent a prey to bankruptcy and possibly to anarchy and the United States unable to provide credits of any sort owing to the internal crisis, the world's position would be indeed serious. If I may venture on what I fear is controversial ground, I may say that it is largely because of these dangers that we should welcome a general cancellation of intergovernmental war debts. The moral effect would even be a greater practical change and fresh hope and confidence would spring up everywhere. The existence of these international debts deters neutrals from giving assistance, checks private credits, and will, I fear, prove a disturbing factor in future international relations.

Senator WILLIAMS. From whom is that cablegram?

Mr. WADSWORTH. That is from the chancellor of the exchequer.

Senator WILLIAMS. To whom is it addressed?

Mr. WADSWORTH. It was sent to Mr. Leffingwell, who was then an Assistant Secretary of the Treasury of the United States.

The CHAIRMAN. Who was the Secretary of the Treasury at that time?

Mr. WADSWORTH. The date is February 9, 1920. I think Mr. Glass was Secretary of the Treasury at that time?

Senator LA FOLLETTE. You have not given us the name of the British Chancellor.

Mr. WADSWORTH. I am sorry to say this is not signed, and I am reading from a copy. The letter of transmittal is signed by Mr. R. C. Lindsay, an English official, addressed to Mr. Leffingwell. That letter of transmittal is as follows:

FEBRUARY 9, 1920.

DEAR MR. LEFFINGWELL: I sent a telegram to London after our conversation at the Metropolitan Club the other day and I have now received a message from the Chancellor of the Exchequer, a copy of which I inclose to you, herewith, and which I hope you may find interesting.

Believe me, dear Mr. Leffingwell,
Very sincerely, yours,

R. C. LINDSAY.

Senator JONES. Did Mr. Leffingwell cancel the debt upon receipt of that cablegram?

Mr. WADSWORTH. I do not know.

The CHAIRMAN. This was rather important correspondence to be conducted between subordinates, was it not?

Mr. WADSWORTH. Mr. Leffingwell carried on all that correspondence at that time.

The CHAIRMAN. It looks like a social correspondence, almost, to me.

Senator WATSON. That is a proposition to cancel all war debts mutually all around the world. You have no such thought as that, have you, Mr. Secretary?

Secretary MELLON. No, indeed.

Senator REED. Was not there a good deal of correspondence along the same line as that telegram?

Senator WADSWORTH. Not as I recall it. The Treasury took the position constantly that there was no such thought at any time.

Senator REED. I do not mean correspondence from our side acceding to it; but were there not other requests than the one you have read, or suggestions of that character?

Mr. WADSWORTH. I do not recall any.

Senator LA FOLLETTE. Mr. Wadsworth, have you another communication there bearing upon this same subject?

Mr. WADSWORTH. I am looking to see if I have any more.

Senator SIMMONS. Mr. Chairman, what was the necessity of our prosecuting this inquiry as to whether there had been any suggestions of cancellation of all these debts? That is foreign to the purpose for which we are meeting. I think everybody understands that nobody now is in favor of canceling these debts, and we are here for the purpose of considering what power and authority we will give to the Secretary of the Treasury for the refunding and adjustment and liquidation of those debts.

Senator LA FOLLETTE. Exactly, Mr. Chairman, I understand that to be so; but if negotiations have been opened heretofore by these debtors and appeals have been made heretofore to this Government to cancel the debts, we do not know if we give unlimited authority to a Government official to dispose of this matter according to his own judgment what he may be confronted with hereafter in the way of appeals from other Governments. He may say now that would not consider the matter. But we are asked to give him unlimited authority, and I think we have a right to know what has been in the minds of these debtor Governments with respect to these debts.

Senator WATSON. Do you think there is any authority carried in this bill to the Secretary of the Treasury to cancel all this indebtedness?

Secretary MELLON. There is no authority asked for to cancel any part of it.

Senator LA FOLLETTE. That is true, but there is unlimited authority asked for with respect to the dealing with these debtors and the postponement of payments and the terms upon which the payments may be made after they have been postponed.

Secretary MELLON. But not for the relinquishment of them.

Senator LA FOLLETTE. I understand that, but when you have gotten the debtor in an attitude of mind, as shown by this record, to

ask for the entire cancellation of his debt, I think you have a pertinent inquiry as to how he will press matters for the largest measure of concession that can be obtained from this Government, and I think it is entirely pertinent to this inquiry.

The CHAIRMAN. Mr. Wadsworth, How did the British officials happen to write to Mr. Leffingwell on this matter of cancellation?

Mr. WADSWORTH. Mr. Leffingwell was then an Assistant Secretary of the Treasury. This letter from Mr. Lindsay—I do not know who he is—incloses a copy of a cablegram.

Senator LA FOLLETTE. Let me ask you if that cablegram was sent to the Secretary of State by the British chancellor?

Mr. WADSWORTH. May I say, Mr. Chairman, that this cable was sent to an Englishman named Lindsay, who was here in this country, by the chancellor of the exchequer, who in turn informally submitted it to Mr. Leffingwell, with whom he had been talking about this matter.

The CHAIRMAN. How did he come to select Mr. Leffingwell instead of going to the fountain-head?

Mr. WADSWORTH. They had been discussing the matter here informally.

Senator REED. You were going to read another document.

Mr. WADSWORTH. In a letter from the Prime Minister of England, dated August 5, 1920, to the President the following appears:

Accordingly the British Government has informed the French Government that it will agree to any equitable arrangement for the reduction or cancellation of inter-allied indebtedness, but that such an arrangement must be one which applies all around.

Senator REED. You say that states "accordingly." There is something that precedes that.

Senator LA FOLLETTE. Suppose you read the entire letter. Then we will get the context.

Mr. WADSWORTH (reading):

I come now to the other question I wish to write to you about, and that is the knotty problem of inter-allied indebtedness. Indeed, I promised Mr. Rathbone long ago that I would write to you about it, but I have had to put it off for one reason and another till now.

Senator REED. Who was Mr. Rathbone?

Mr. WADSWORTH. Mr. Rathbone was an Assistant Secretary of the Treasury who was abroad in the winter of 1919-20 negotiating this matter. [Reading:]

The British and French Governments have been discussing, during the last four months, the question of giving fixity and definiteness to Germany's reparation obligations. The British Government has stood steadily by the view that it was vital that Germany's liabilities should be fixed at a figure which it was within the reasonable capacity of Germany to pay, and that this figure should be fixed without delay because the reconstruction of Central Europe could not begin nor could the Allies themselves raise money on the strength of Germany's obligation to pay them reparation until her liabilities had been exactly defined. After great difficulties with his own people M. Millerand found himself able to accept this view, but he pointed out that it was impossible for France to agree to accept anything less than it was entitled to under the treaty, unless its debts to its Allies and associates in the war were treated in the same way.

This declaration appeared to the British Government eminently fair. But after careful consideration they came to the conclusion that it was impossible to remit any part of what was owed to them by France except as part and parcel of all around settlement of inter-allied indebtedness. I need not go into the reasons which led to this conclusion which must be clear to you; but the principal reason was that British public opinion would never support a one-sided arrangement at its sole expense, and that if such a one-sided arrangement were made it could not fail to estrange

and eventually embitter the relations between the American and British people, with calamitous results to the future of the world. You will remember that Great Britain borrowed from the United States about half as much as its total loans to the Allies, and that after America's entry into the war, it lent to the Allies almost exactly the same amount as it borrowed from the United States of America. Accordingly the British Government has informed the French Government that it will agree to any equitable arrangement for the reduction or cancellation of inter-allied indebtedness, but that such an arrangement must be one which applies all around.

As you know, the representatives of the Allies and of Germany are meeting at Geneva in a week or two to commence discussion on the subject of reparation. I recognize that in the midst of a Presidential election and with Congress not in session, it is impossible for the United States to deal with this question in a practical manner, but the question is one of such importance to the future of Europe and indeed to the relations between the allied and associated powers, that I should very much welcome any advice which you might feel yourself able to give me as to the best method of securing that the whole problem could be considered and settled by the United States Government in concert with its associates at the earliest possible moment that the political situation in America makes it possible.

There is one other point which I should like to add. When the British Government decided that it could not deal with the question of the debts owed to it by its Allies except as part and parcel of an all-around arrangement of interallied debts, the Chancellor of the Exchequer told Mr. Rathbone that he could not proceed any further with the negotiations which they had been conducting together with regard to the postponement of the payment of interest on the funding of Great Britain's debts to America. I should like to make it plain that this is due to no reluctance on the part of Great Britain to fund its debt, but solely to the fact that it can not bind itself by any arrangement which would prejudice the working of any interallied arrangement which may be reached in the future. If some method can be found for funding the British debt which does not prejudice the larger question, the British Government would be glad to fall in with it.

Senator REED. Mr. Chairman, it is now nearly 12 o'clock, and the question has been raised of this correspondence. If the committee sees fit to pass a resolution requesting the Judiciary Committee to furnish it with these confidential pamphlets, I shall be glad to take it to the Judiciary Committee, of which I am a member, and try and secure the pamphlets for the use of the Finance Committee.

The CHAIRMAN. I understand that without objection the committee has so ordered. The chairman has been authorized to write a letter, and I will ask Senator Reed to take it up himself.

Senator La Follette, have you any further questions?

Senator LA FOLLETTE. It is now within five minutes of the time of the meeting of the Senate.

The CHAIRMAN. Do you wish to be on the floor at the time the Senate meets?

Senator LA FOLLETTE. I would like to be on the floor at that time.

Senator GERRY. I would like to ask the Chair if the request for the chairman to ask for information from the Judiciary Committee covers not only the confidential print of this pamphlet, but also the data contained in the packing boxes?

The CHAIRMAN. My understanding is that it covers everything that is in the possession of the Judiciary Committee relating to this subject, and Senator Reed, who is a member of this committee and also a member of the Judiciary Committee, has promised the chairman to do all he can to secure everything for this committee.

Senator REED. And if the chairman will give me a letter to the Judiciary Committee, I shall present it in person and try to get the data required, and I think I shall be able to get it without difficulty.

(Thereupon, at 12 o'clock noon, the committee adjourned to meet on Friday, July 15, 1921, at 10 o'clock a. m.)

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES ^{Congress.} SENATE

SIXTY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 2135

A BILL TO ENABLE THE REFUNDING OF OBLIGATIONS
OF FOREIGN GOVERNMENTS OWING TO THE UNITED
STATES OF AMERICA, AND FOR OTHER PURPOSES

FRIDAY, JULY 15, 1921

PART 3

Printed for the use of the Committee on Finance



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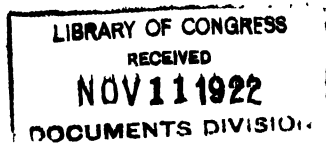
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REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

FRIDAY, JULY 15, 1921.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to adjournment, at 10.30 o'clock a. m., in room 312, Senate Office Building, Senator Boies Penrose presiding.

Present: Senators Penrose (chairman), McCumber, Smoot, La Follette, Dillingham, Watson, Sutherland, Simmons, Reed, and Williams.

Present also Hon. Andrew W. Mellon, Secretary of the Treasury; Hon. Elliot Wadsworth, Assistant Secretary of the Treasury; and John B. Walker, Esq., chief of the legislative drafting service of the Senate.

The CHAIRMAN. The committee will come to order, the hour of 10.30 having arrived. The Secretary of the Treasury is present and also the Assistant Secretary, at the special request of Senator La Follette, to respond to certain inquiries which are to be submitted to them.

Mr. Secretary, pending the arrival of Senator La Follette, have you anything particular to add to your statement of yesterday?

Secretary MELLON. I do not know of anything. Were there any other requests that Senator La Follette left?

Mr. WADSWORTH. He did not read his request.

Secretary MELLON. Was there any further information that he wanted?

Mr. WADSWORTH. There was an inquiry on the reported loan by England to the Argentine. He had not reached that matter yesterday.

Secretary MELLON. I believe Senator Reed asked about that at the last session.

Mr. WADSWORTH. Senator La Follette wrote a letter in which he said that he was going to ask questions about that.

The CHAIRMAN. The committee is informed that this being Cabinet day the Secretary can not remain here any great length of time. Senator Simmons, did you have any further inquiries you desired to submit to the Secretary of the Treasury concerning this proposed bill?

Senator SIMMONS. Mr. Secretary, I just wanted to ask you if there has been any suggestion made on the part of our foreign debtors that they be allowed to discharge their indebtedness by turning over

to us the bonds of Germany that may be taken for reparation purposes?

Secretary MELLON. No; there have been no such requests by any country.

Senator SIMMONS. Has there been, within your knowledge, any discussion of that subject between officials of this Government and officials of the foreign Governments?

Secretary MELLON. No; not so far as I know.

The CHAIRMAN. That is, during your term of office?

Secretary MELLON. During my term of office.

The CHAIRMAN. You can not answer as to what occurred prior to that?

Secretary MELLON. No; certainly not.

Senator SIMMONS. I was only asking with reference to his term of office.

Senator LA FOLLETTE. If the information is in the files and he has seen it, he can answer the question.

The CHAIRMAN. We have all heard of well-defined rumors of such action being contemplated years ago.

Senator SIMMONS. No; we have not heard of such action being contemplated. We have heard that some suggestions were made by foreign Governments. There is absolutely nothing, Mr. Chairman, in any of the correspondence that has been read or any of the evidence that I have heard that this Government at any time through any administration had contemplated any such arrangement.

Secretary MELLON. No; there has been no such suggestion, and there has been nothing contemplated in that direction.

Senator SMOOT. Mr. Secretary, a statement was made on the floor of the Senate yesterday that some of the foreign Governments were ready and have offered to pay their interest, but the Treasury of the United States would not take it. Do you know of any such Government?

Secretary MELLON. No.

Senator SMOOT. You would be perfectly willing to take anything that they were willing to pay?

Secretary MELLON. Yes.

Senator SIMMONS. Mr. Secretary, I want to ask you one or two other questions and then I shall not trouble you any further. There has been, as Senator Smoot has just suggested, a good deal of discussion with reference to the interest upon our foreign debt—that is, in the first place, whether it was proposed to defer payment of interest already accrued; and, in the second place, if it is contemplated in any arrangement for extension that there shall be also an extension of current interest. In other words, a distinction has been made in the discussion with reference to accrued interest and current interest, or interest accruing after the adjustment is made. I wish you would explain whether in your thought with reference to this matter there is any purpose to extend time for payment of an interest that may accrue after this adjustment is made.

Secretary MELLON. The accrued interest, as stated by the former Secretary of the Treasury, had been considered in the negotiations, and there was an understanding with these foreign Governments that that interest would be deferred. That is fully set forth in Mr. Houston's report. For current interest, or interest arising since

then, there has been no request, nor any consideration given to any question of further deferring the payment of these debts. But it is likely that with some of these Governments there will be a necessity to defer interest payments. There will be cases where it will be utterly impossible for the particular Government to meet the current rates, and in those cases it will be necessary to work out the best arrangement for the future payment of interest that can be made under these circumstances.

Senator SIMMONS. Then, you think there might be some case in which it would be necessary to defer the payment of future interest?

Secretary MELLON. I believe so.

Senator SIMMONS. There was a communication from London—I do not now recall just how that communication was received—

Senator SMOOT. It was a newspaper report.

Senator SIMMONS. Yes; a newspaper report, indicating that there was a rumor afloat in that city that negotiations were going on looking to the postponement of interest for 15 years.

Secretary MELLON. That is not official in any way.

Senator SIMMONS. Has it come otherwise?

Secretary MELLON. No; I have no knowledge of it.

Senator SIMMONS. Have you in mind deferring the payment of current interest on the indebtedness of Great Britain and France? Do you think there would be any necessity of deferring that interest, and are you considering that in connection with any refunding scheme?

Secretary MELLON. It has not been given consideration, because the question has not come up at all.

Senator SIMMONS. But, Mr. Secretary, you are asking us to give you very broad powers, and there are some Senators who feel that they should know, to some extent, what is in your mind with reference to fundamental questions of that character.

Secretary MELLON. It is pretty hard to answer without knowing the conditions or the reasons that might be presented. There might be some substantial reason why certain interest should be further deferred. I do not know.

Senator SIMMONS. Yes; you said a little while ago that might be with reference to some of these Governments, but I am asking now with reference to Great Britain. I named that country first, and, then, after you have answered that, I intended to ask you with reference to France.

Secretary MELLON. Of course, the rate of exchange has a great deal to do with that question, and the problem changes with the dollar at a very high premium. There might be a reason why consideration should be given to further extension of that interest, and it might be that the interest of this Government, as well as to the country, would require a further extension.

Senator SIMMONS. So you think it is probable at least that it would be wise from the standpoint of public policy?

Secretary MELLON. I would not say probable. You asked me whether the situation might arise where there should be consideration given to a request to further defer interest. If the rate of exchange should be at an extreme point where it would be a penalty to that Government to make immediate payment, it would be against the interest of this Government to insist on it, because if the pay-

ment should be enforced it would still aggravate the exchange situation, and the exchange situation, where the dollar is at a high premium or where the pound sterling, say, of Great Britain, is depreciated, makes it that much more difficult for trade with this country. In other words, it is that much of an embargo against the exporting of commodities from this country. So it might be to the interest of this Government to defer the payment of interest in order not to aggravate that situation.

Senator SIMMONS. Then, Mr. Secretary, you are, in connection with this refunding proposition, considering the question of whether we should not defer the payment of future interests?

Secretary MELLON. Well, there has not been anything as yet to consider. The question has not arisen and it may not arise. It depends on the conditions. These settlements will take a little time and the rate of exchange is fluctuating. I understood some little time ago—I have heard nothing since on the situation—that the British Government was preparing to pay their interest. I have heard nothing to the contrary and there has been no request or intimation that any request would come, and there may not be any. I only spoke of that situation as something that might arise.

Senator SIMMONS. Taking the conditions that exist now, if you were making the settlement to-day would you think it wise to defer the interest upon the obligations due us by the British Government?

Secretary MELLON. I do not think it would be wise to defer the interest if they were in a position to make the payment.

Senator SIMMONS. If they were to ask for a deferment, would you, under the present conditions and in your present frame of mind feel like granting it?

Secretary MELLON. It is difficult to answer that question. I doubt whether there would be occasion at the present rate of exchange with Great Britain, under the present situation, to defer the interest.

Senator SIMMONS. I did not catch your answer.

Secretary MELLON. I say I do not think there would be occasion in the present situation to defer that interest.

Senator SIMMONS. Mr. Secretary, suppose Great Britain came and urged upon you the postponement of this payment of interest, under the present conditions would you grant it?

Secretary MELLON. It would depend on the reasons and the exigency that occasioned the request.

Senator SMOOT. You are speaking now of accrued interest?

Secretary MELLON. No; current interest.

Senator SIMMONS. Suppose you had this power now, that we were to give it to you to-day, and to-morrow you were sitting down with the officials of Great Britain making this refunding contract and Great Britain should ask and insist upon deferring the current interest hereafter to accrue. Would you grant that request?

Secretary MELLON. I doubt whether it would be granted, but I could not say that there might not be substantial reasons given, some exigency existing, or some reason that should be considered. It is difficult to answer.

Senator SIMMONS. Taking the reasons that you know might be urged, and probably would be urged, what would be your feeling about it?

Secretary MELLON. They have not asked; I do not believe they are going to ask; and I do not believe that the question is going to arise, but there always is a possibility of the question arising, and it is difficult to decide questions in advance without knowing the circumstances.

Senator WATSON. But from anything you now know there is no reason why the payment should be deferred, is there, Mr. Secretary?

Secretary MELLON. None.

Senator SMOOT. Let me read a dispatch from London that was put into the record yesterday, and then ask you a question or two about it. The dispatch from London is as follows:

There was a further improvement yesterday in the currencies of the principal allied countries. The American rate for the pound sterling rose $1\frac{1}{2}$ cents. Although there was an absence of German buying of dollars, on account of reparation yesterday, the improvement in sterling was not due to it; it was attributed, in part, to the announcement cabled from New York that an agreement had been reached for postponing for 15 years payment of interest on the allied debts to the United States Government.

Secretary MELLON. That is totally unfounded, so far as any knowledge of the Treasury Department or myself is concerned.

Senator SMOOT. Could you imagine a case where you would promise England that you would defer payment for 15 years?

Secretary MELLON. No.

The CHAIRMAN. Is the matter worthy of attention on a hot day like this?

Senator SMOOT. Yes.

The CHAIRMAN. It does not appear so to me.

Senator SMOOT. You will hear about it on the floor of the Senate and you will find out whether it is worthy of attention or not.

Senator SIMMONS. There is a very decided feeling in the Senate, Mr. Chairman, and I have heard it expressed.

Senator SMOOT. Senator Borah says it will have to be explained before he will allow the bill to pass on the floor of the Senate.

Secretary MELLON. We can not be responsible for unfounded statements.

Senator WILLIAMS. Who was the author of that information?

Senator SMOOT. This is a cable, as it says here, from London.

Senator WILLIAMS. It does not say to whom or from whom; just a cable?

Senator SMOOT. I think Senator Borah said it was an Associated Press dispatch. I think he said that when he first called attention to it.

Senator WATSON. I think that the Secretary ought to categorically answer the questions now.

Senator SMOOT. Now, let us get at this thing, because it was said yesterday that no Secretary would ever promise or agree to any such proposition.

Secretary MELLON. There is no question about that. I mean that you are right in that statement.

Senator SMOOT. It is totally unfounded, so far as anything from the Treasury Department is concerned?

Secretary MELLON. Absolutely so.

Senator SMOOT. Could you conceive of any condition where, if England came here and asked in the refunding debt, that the in-

terest be extended for 15 years, that any Secretary would think favorably of such a thing?

Secretary MELLON. I think it is not conceivable.

Senator SIMMONS. Mr. Secretary, I had been asking you, when I was interrupted, only about the British obligations, and you have answered as to them. Now, will you tell me your feeling about the French and the Italian obligations?

Secretary MELLON. In what way?

Senator SIMMONS. I desired to present the same questions to you with reference to those that I did with reference to the obligations of Great Britain. If they should come and ask you, in this settlement, to allow a postponement of current interest for some time in the future; knowing what you do about their situation, would you grant such a request if you were called upon to act?

Secretary MELLON. It would have to have some substantial reason that I do not know of now. The same answer would apply to those countries that I gave for Great Britain.

Senator SIMMONS. But if in the case of either of those countries, Great Britain, France, or Italy, they were to present to you reasons that appealed to you why the current interest should be postponed, you would give that serious consideration? That is what you mean to say?

Secretary MELLON. Any favorable consideration that would be given would be wholly based on the best interests of our own Government.

Senator SIMMONS. Oh, I understand that; but the question I wanted to ask is: Do you think you could and would give serious favorable consideration to that suggestion from either France, Italy, or Great Britain?

Secretary MELLON. I do not think so from all that I know now.

Senator SMOOT. Mr. Secretary, do you have any idea from what source that information came that the London Times published?

Secretary MELLON. I have not the remotest idea.

Senator SMOOT. Has there been any publication in the United States to the same effect?

Secretary MELLON. I have not seen any.

Mr. WADSWORTH. May I say, Mr. Chairman, that such a statement did appear in the Journal of Commerce of New York on the front page, that an agreement to postpone interest for 15 years had been arrived at and that the papers were on their way to England to be considered there.

The CHAIRMAN. What was the date of that issue?

Mr. WADSWORTH. I have not the exact date. I have the clipping in my office.

The CHAIRMAN. Will you kindly send it to the committee?

Mr. WADSWORTH. I shall do so.

Senator LA FOLLETTE. Do you remember whether the statement said that the agreement had been reached with the Treasury officials?

Mr. WADSWORTH. Yes; it stated that a tentative agreement with the Treasury officials had been reached.

Senator LA FOLLETTE. Or was it a tentative inquiry and a passing of messages between the Morgan interests and Great Britain to ascertain whether or not such an arrangement would be acceptable?

Mr. WADSWORTH. It was a very definite statement that there had been a tentative agreement reached here with the officials.

Senator SMOOT. What have you done about it, Mr. Wadsworth?

Mr. WADSWORTH. I telegraphed at once to the paper, asking by what authority they had published it. They telegraphed to their representative here, whose name I have forgotten, and he telegraphed back to them that he had gotten his information from Congressman Tinkham as the result of a conversation with me.

Senator LA FOLLETTE. A conversation that Congressman Tinkham had had with you?

Mr. WADSWORTH. Yes; about six weeks before. They sent the man to see me and that was all that he could say, that he had pieced two and three together and made five, and that Congressman Tinkham had told him that the interest was to be deferred for 15 years and so he had printed that article.

Senator WATSON. Of course, you never had any conversation with Congressman Tinkham of that kind?

Mr. WADSWORTH. I had a discussion with Congressman Tinkham about this whole situation, but there was nothing said in our discussion about an extension of 15 years.

Senator SMOOT. Have you denied the article to the Journal of Commerce?

Mr. WADSWORTH. No. So many articles were coming out at that time with respect to all kinds of plans for exchange in bonds, etc., that we adopted the policy of saying constantly that the Treasury has no plan at the present time. We could not go on denying every scheme that was suggested.

Senator SMOOT. But there was nothing in your mind and there was no word spoken by you that would lead anyone to believe that that was the program on the part of the Treasury Department?

Mr. WADSWORTH. Not the slightest.

Senator WATSON. Mr. Secretary, you stated, a while ago, that, so far as you knew, there was no proposition at this time to defer interest.

Secretary MELLON. None whatever.

Senator WATSON. Do you know of any proposition coming to any department of the Government or made by any department of the Government to anybody representing in an official capacity any of these foreign Governments?

Secretary MELLON. None whatever, and this conversation with the Congressman is all news to me now. I did not know of it.

Senator SIMMONS. Mr. Secretary, I want to ask you another question.

The CHAIRMAN. The Chair is informed that Senator La Follette wants to make a brief statement to the committee before leaving.

Senator LA FOLLETTE. I simply desire to be on the floor at 11 o'clock this morning. As the Senate is now in session, I shall have to withdraw. If the committee is going to proceed, I would like to know what time the committee will meet again to take up this subject?

The CHAIRMAN. Would you desire to have the Secretary of the Treasury present again, Senator La Follette, or would his assistants do?

Senator LA FOLLETTE. If I can get the information I desire from the assistants, I would like to save the Secretary the trouble of coming here.

Secretary MELLON. It is perfectly agreeable to me to come again.

The CHAIRMAN. It is not a question of trouble; but he is a very busy man.

Senator LA FOLLETTE. We might have a session at which the assistants could be present and see what the developments are, and if it is necessary to call the Secretary, we could do that.

Secretary MELLON. May I say this: This is important, and I am ready to come at any time.

The CHAIRMAN. If the knowledge is in the particular jurisdiction of your assistants, Mr. Secretary, there would be no need of your being here until the assistants are exhausted.

Senator LA FOLLETTE. Yes; that occurred to me.

Senator SIMMONS. I think the Secretary had better come back another day.

Senator WATSON. Why could not he come on Monday?

The CHAIRMAN. He is entirely willing to do so.

Senator SMOOT. Why not have him come to-morrow and spend the entire day in cleaning this thing up?

Secretary MELLON. I had made an engagement away from Washington for to-morrow.

The CHAIRMAN. Will you be here Monday?

Secretary MELLON. It will be perfectly satisfactory for me to be here Monday.

The CHAIRMAN. Then, when we adjourn we will take an adjournment to meet at 10.30 on Monday for the purpose of having the Secretary before us.

Senator DILLINGHAM. Mr. Chairman, the Secretary was in the midst of a statement called out by the remark of the Assistant Secretary when he was interrupted. I hope he will be able to complete it.

Secretary MELLON. No. I said that this matter of the conversation between the Congressman and the Assistant Secretary was something that I had just now learned of.

Mr. WADSWORTH. I did not trouble you about it, Mr. Secretary, because there were so many newspaper articles and newspaper interviews, etc.; I just straightened it out as we went along.

Senator WATSON. Mr. Secretary, if this power asked for in this bill is granted to you, you expect at once to proceed, as far as possible, without international complications, to collect the interest accrued and accruing and to refund the debts and see that our money is paid?

Secretary MELLON. That is my understanding of my duty in the matter.

Senator SIMMONS. Mr. Secretary, I want to ask you one more question. I think it is perfectly natural that we should all want to know, as far as we can, what will likely result in the matter of these settlements in case you are given this authority; and, therefore, it is important for us to know, I think, not only what is in your mind, but what is in the minds of other great interests in this country that are naturally interested in this settlement. I want to ask you, not with any view of prying into things that I ought not to know or from curiosity, but with a view to ascertaining what are the influences that may likely be expected to be exerted for the purpose of

securing a postponement, not only of a payment of the principal, but of the current interest. Is there any movement, so far as has been brought to your official or personal knowledge, among the leading financiers or bankers of the country to exert an influence, so far as they can, to secure an arrangement by which this interest payment will be postponed?

Secretary MELLON. I know of no such movement, and there has been no intimation to me from any financial interest in that regard. No one has suggested it to me, and there has been no suggestion or intimation or thought about it in the administration. It is known that these debts are owing and they will be ready to meet their interest; or if they are not ready to meet their interest, they will have to give substantial argument for any postponement. There has been no intimation that any of these governments have an intention of requesting further deferment of the interest. We know that there are a number of the smaller governments that are not going to be in a position to meet their interest. We know that from our knowledge of their financial condition.

Senator SIMMONS. Then, as I understand you, upon that question you have an open mind? That is, you would prefer to get the interest if you can, but if conditions develop, or are brought to your attention, that in your judgment make it wise, from the standpoint of the interest of this country as well as our allies, to postpone, you might be moved to consent to that?

Secretary MELLON. There is that possibility.

Senator WATSON. Take, for instance, the obligations held by the United States Grain Corporation. Those obligations are to be collected, if at all, through the Treasury, are they not?

Secretary MELLON. Yes. Some portion has been paid.

Senator WATSON. For instance, Armenia owes \$8,931,000 which was due on the 30th day of June.

Secretary MELLON. Yes.

Senator WATSON. There is no way you can collect that now, is there?

Secretary MELLON. I do not know of any way.

Senator WATSON. That is to say, you are bound to deal with it as the circumstances compel you to deal with it?

Secretary MELLON. Yes.

Mr. WADSWORTH. I think there is no government of Armenia at the present time with a mail address.

Senator WATSON. Precisely; but the question is under discussion as to whether or not we shall collect the interest.

The CHAIRMAN. When was this money advanced to Armenia?

Secretary MELLON. That was the food relief proposition.

The CHAIRMAN. But what was the date of it? Was it a year ago?

Senator SMOOT. It was in 1918, I think.

Senator REED. Have we something purporting to be an obligation from the Armenian Government for \$8,000,000?

Mr. WADSWORTH. Yes; we have.

Senator REED. Was there some kind of a government then in existence in Armenia to make that obligation?

Mr. WADSWORTH. I think so.

Senator REED. What has become of that Government? You say there is none now having a mail address.

Mr. WADSWORTH. There is a good deal of unsettlement in Asia Minor at the present time and the bolsheviks and the Turkish nationalists and other are fighting over that area. It is very difficult to communicate with them.

Senator REED. Are Russia and Turkey fighting in Armenia now? You say "bolsheviks." I suppose you mean Russia?

Mr. WADSWORTH. Yes.

The CHAIRMAN. Ought we not to have the Secretary of State present before the committee to illuminate some of these subjects?

Senator WATSON. Here is Poland, Mr. Secretary. Poland incurred obligations to us through the United States Grain Corporation, beginning December 1, 1919, running up until July 13, 1920, of some \$24,000,000, carrying 5 per cent interest. That was due on the 30th of June, 1921?

Secretary MELLON. Yes.

Senator WATSON. Has any kind of a proposition been advanced for the collection of that money?

Secretary MELLON. None.

Senator SMOOT. Well, they could not pay it?

Secretary MELLON. No. I believe, Mr. Wadsworth, that those United States Grain Corporation claims are being looked after now by the Department of Commerce.

Mr. WADSWORTH. No; they are still held by the Grain Corporation.

Senator REED. I would like to inquire, Mr. Chairman, if we are going on? The second bell has already rung.

The CHAIRMAN. That is for the pleasure of the committee. If we are going to make quorums in the Senate we will never get through with the consideration of these overwhelmingly important measures.

Senator SIMMONS. As the Secretary is coming back Monday, and we are going to vote at 3 o'clock on the question before the Senate, I think most of us would like to be over there.

The CHAIRMAN. Of course, we have the Sweet bill yet before us for consideration.

Senator SMOOT. I want to-morrow morning, then, on the Sweet bill.

Senator WATSON. I move that the committee adjourn until to-morrow morning at 10.30.

The CHAIRMAN. It is entirely for the committee to determine.

Senator SMOOT. I move that the committee adjourn until to-morrow at 10.30.

The CHAIRMAN. The motion is carried.

(Thereupon, at 11.30 o'clock a. m., the committee adjourned to meet at 10.30 o'clock a. m., Saturday, July 16, 1921.)

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

SIXTY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 2135

A BILL TO ENABLE THE REFUNDING OF OBLIGATIONS
OF FOREIGN GOVERNMENTS OWING TO THE UNITED
STATES OF AMERICA, AND FOR OTHER PURPOSES

JULY 18, 20, AND 21, 1921

PART 4

Printed for the use of the Committee on Finance



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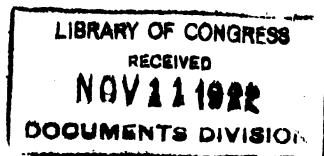
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REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

MONDAY, JULY 18, 1921.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10.30 o'clock a. m., in room 312, Senate Office Building, Senator Boies Penrose presiding.

Present: Senators Penrose, McCumber, LaFollette, Curtis, Simmons, Williams, Reed, and Walsh.

Also present: Hon. Andrew W. Mellon, Secretary of the Treasury; Hon. Elliott Wadsworth, Assistant Secretary of the Treasury; and John E. Walker, Esq., chief of the legislative drafting service of the Senate.

The CHAIRMAN. Senator La Follette, have you any further interrogatories to address to the Secretary of the Treasury?

Senator LA FOLLETTE. Yes; I wanted to ask the Secretary some questions, or some of his assistants. I would like to inquire of the Secretary or Mr. Lattay whether there has been prepared a record or brief of the matters of negotiation that have been under way in the Office of the Secretary of the Treasury with regard to these foreign loans?

Assistant Secretary WADSWORTH. Mr. Chairman, there is no Mr. Lattay who has been connected with this matter.

Senator LA FOLLETTE. What is this young man's name [indicating]?

Assistant Secretary WADSWORTH. His name is Heffelfinger. He is employed as file clerk and has charge of the files. Your letter spoke of a Mr. Lattay.

Senator LA FOLLETTE. Yes, sir; and I am informed there is a Mr. Lattay. I may not pronounce his name just as you would pronounce it, but it is spelled Lattay. Is there not such a man here?

Assistant Secretary WADSWORTH. There is a Mr. Kelley, who was here before, and there is a Mr. Latting, but Mr. Latting has not been associated with this particular matter, certainly not since I came into office.

Senator LA FOLLETTE. Well, I will ask you, Mr. Wadsworth, is there not some memoranda that will give us, without having to draw them out one by one, a comprehensive record of all the negotiations that have taken place between these foreign debtors and the Treasury Department with respect to what they want done with the loans? That must have been briefed either for the consideration of the Secretary, for you, or for some one else.

Assistant Secretary WADSWORTH. I think not. When I came in I went through all of these files of the correspondence and cables which are now either in the hands of this committee or the hands of the Judiciary Committee, and in order to familiarize myself with it I went over all that in detail.

Senator LA FOLLETTE. Well, did you not have it briefed in some orderly way?

Assistant Secretary WADSWORTH. Nothing that is not in this set of correspondence.

Senator LA FOLLETTE. What do you refer to as "in this set of correspondence?"

Assistant Secretary WADSWORTH. These cases of the papers that were sent up here in response to the request of the Judiciary Committee.

The CHAIRMAN. Was not that all gone over at the last meeting, when Senator Reed explained that these papers were all sent from the State Department to the Judiciary Committee?

Senator LA FOLLETTE. I did not go over it.

The CHAIRMAN. Senator Reed presented a printed document showing a résumé of all this correspondence.

Senator LA FOLLETTE. Senator Reed also stated that at the call of the Judiciary Committee for all the papers in the case that copies were sent down en masse, in a perfect jumble, three chests full.

I know perfectly well that the Secretary of the Treasury does not run the business of the Treasury that way, but that when he wants to know what the record is in a particular case it comes to his desk briefed up in some orderly way, and I do not want to have to pursue a policy here of corkscrewing one by one the papers and records and correspondence out of witnesses that appear before this committee. I think this committee is entitled to know just exactly what the attitude of the representatives of the foreign governments who have negotiated with regard to these loans has been and what it is. Nobody knows whether Mr. Mellon, if we pass legislation, will conclude this arrangement or not. Nobody knows how long it will string out, and the one material thing that we do know is that we have got to deal with the foreign governments. They will not change. And if we can get some clear, definite notion of what their attitude is with respect to these loans I think it will help us materially; it will help me anyhow to make up my mind with respect to this legislation.

The CHAIRMAN. I want to help you every way I can, Senator La Follette, to that end.

Senator LA FOLLETTE. I am sure you do.

The CHAIRMAN. And I only want to state for your information and that of the committee that I have had some personal communications since our last meeting on the subject; that my understanding has been that all the archives and correspondence available were in the possession of our State Department, the requests of the Judiciary Committee were sent to that committee and are now in the Capitol, contained in some half dozen chests, being papers relating to this matter; and Senator Reed stated before this committee, of which he is a member, that these papers had been brought and extracts made from them and printed for the confidential use of the Judiciary Committee.

Senator WILLIAMS. There were 96 copies printed?

The CHAIRMAN. Yes. Thereupon I communicated with Senator Nelson, the chairman of the Judiciary Committee, under the authority granted to me by this committee, and Senator Reed indicated, some of you may recall, that he, being a member of both committees, would endeavor to expedite having the papers sent over here. I

received a letter from Senator Nelson, the chairman of the Judiciary Committee, to the effect that he did not feel authorized to send the papers to this committee, unless directed by the State Department, and neither did he feel authorized to send the confidential documents referred to by Senator Reed, which were printed in confidence, unless authorized by the State Department or the Senate.

I only make that statement so you will know how the matter stands.

Senator LA FOLLETTE. I had understood, Mr. Chairman, that all of this which you have now stated had transpired. I was at the meeting of the committee here last Saturday all day.

The CHAIRMAN. I did not know whether you knew about Senator Nelson having written the letter.

Senator LA FOLLETTE. Yes; I knew.

The CHAIRMAN. What is it you want now?

Senator LA FOLLETTE. I do not want, if I can avoid it, to have to make my way through these three or four chests of paper, if this committee gets the custody of them, nor through the several hundred pages of printed matter, which is merely a brief made by Senator Reed's secretary. But I am confident that in the orderly transaction of the business of the Treasury, the head of that department has had this matter put into some digest covering all the correspondence.

The CHAIRMAN. That is what we want to find out.

Senator LA FOLLETTE. That is what I would like to learn.

Senator WALSH. Mr. Chairman, may I ask if confidential information received by any one committee is available for use of all Members of the Senate?

The CHAIRMAN. My understanding is that any individual Senator may have a right to the confidential information in the hands of any committee.

Senator WALSH. That is what I thought.

The CHAIRMAN. But whether the chairman of the committee would feel fully authorized to transfer all of the documents to another committee I do not know. It is purely a very technical difference.

Senator WALSH. I wanted to know the practice, Mr. Chairman.

Senator McCUMBER. I think that there might be a little question about that. The State Department may send something up to the Foreign Relations Committee in confidence for that committee, or to the Judiciary Committee in confidence for that committee, and I do not think that that committee would be authorized then to turn over any part of it to any one Senator.

The CHAIRMAN. We need not argue that.

Senator WILLIAMS. Not without the consent of the State Department.

Senator McCUMBER. It becomes important, then, whether we could use this report that had been made by the Judiciary Committee. It might contain all we want if we could get it.

Senator LA FOLLETTE. It will take a long time, Mr. Chairman, to pass any legislation on this subject until this committee is in possession of all the facts with respect to it. I can assure you that.

Secretary MELLON. There is one thing to keep in view, and that is that all these papers are separate and not connected together, that is, all of the negotiations are with the particular governments

owing the money; there is not one comprehensive record, nor any record or brief applying to this particular government and to that particular government alone.

Senator LA FOLLETTE. There may be, as you say, Mr. Mellon, that would be quite as useful to this committee if the committee could have the separate briefs that have been made with regard to all the transactions as to each Government.

Senator WALSH. What is the object of secret negotiations between the Governments about a public debt? Why should there be anything secret about it?

Senator LA FOLLETTE. I do not think there is anything secret about it. This is not the money of these officials; this is not the money of the head of the State Department: it is the money of the people of this country, and they have a right to know what is proposed to be done with it. They have got to pay on taxation here. We have had the argument made that the soldiers of this country have got to wait until this matter has all been worked out with the foreign Governments. I, for one, want to know just what is afoot about it.

Secretary MELLON. You will have to wait a good while, then. If the negotiations have to be subject in each case to review before conclusion can be reached, it is going to take a very long time.

Senator LA FOLLETTE. It may take a considerable time, Mr. Secretary, but it involves a considerable amount of money.

Secretary MELLON. Yes; but the method of funding the loans is just as simple in a large amount of money as it is in a small amount.

Senator LA FOLLETTE. Exactly; but the consequences are not.

Secretary MELLON. The principles involved are the same.

Senator LA FOLLETTE. Not quite the same.

Secretary MELLON. And the procedure is simple, and it is only putting the debt into shape to make it available.

Senator LA FOLLETTE. There may be a difference of opinion and differences of judgment about this matter.

Senator McCUMBER. I would like to ask a question as bearing on this question.

The CHAIRMAN. Very well.

Senator McCUMBER. What objection, Mr. Chairman, would there be on the part of the chairman of this committee asking the State Department for the right to use the confidential data that was sent up to the Judiciary Committee, and the epitomization of the contents of those papers that were prepared by the clerk of that committee in conjunction with the clerk of the Senator from Missouri?

The CHAIRMAN. Since I made a statement a few moments ago to the committee, Mr. Wadsworth has called my attention to the fact that these papers originally emanated from the Secretary of the Treasury, and were by him handed over to the State Department. Is that correct, Mr. Wadsworth?

Assistant Secretary WADSWORTH. Yes.

The CHAIRMAN. I wish you would state the exact status of the matter.

Assistant Secretary WADSWORTH. As Senator Nelson says—

The CHAIRMAN (interposing). I will ask to have Senator Nelson's letter inserted in the record. It is in reply to my verbal request for these papers.

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS. 71

(The letter of Senator Nelson referred to, and directed by the chairman to be inserted in the record, is here printed in full, as follows:)

UNITED STATES SENATE,
COMMITTEE ON THE JUDICIARY,
July 26, 1921.

HON. BOIES PENROSE,
Chairman Senate Committee on Finance,
United States Senate, Washington, D. C.

DEAR SIR: Your favor of the 16th asking this committee to loan the Committee on Finance the papers sent to this committee by the Treasury Department relating to foreign loans and commitments, is at hand. In reply to the same, I beg leave to give you the following information: That in obedience to a resolution of this committee, adopted March 1, 1921, some six boxes or chests of copies of documents relating to foreign loans and commitments were sent to this committee by the Treasury Department. These boxes are now in the hands of the Sergeant at Arms, for which I hold his receipt.

After these boxes of documents were received by the committee, Senator Reed had his secretary or clerk, Don M. Hunt, examine the papers and select such of them as were deemed important and material; and this selection, made by Mr. Hunt, was afterwards, pursuant to the direction of this committee, printed as a confidential document for the use of the committee, entitled "Confidential Print, Foreign Loans and Authority for Making the Same"; this print contains 388 pages.

Thereafter, on the 27th of June, this committee adopted the following resolution: "It was moved by Senator Reed that a subcommittee of three be appointed to examine the document known as Confidential Print of Foreign Loans and Authority for Making Same and to report at the next meeting of the committee whether all or any part of said document should be made public, and further that a copy of said document be immediately sent to the Secretary of State with the request that he report to the committee prior to its next meeting whether there is objection on the part of the State Department to the publication of all or any part of the correspondence contained in said document."

In pursuance of this resolution, a copy of the same was sent to the Secretary of State, with the request that he report thereon prior to July 4, 1921. In response to this resolution, I received from the Secretary of State a letter of which the inclosed is a copy. From this you will see that the Secretary of State objects to making public any of this correspondence. I presume that this confidential print of the committee, to which I have referred, would probably furnish you with all material information in the premises, without overhauling the documents contained in the six boxes referred to.

Would suggest to your committee that you communicate with the Secretary of State and ascertain whether he has any objection to furnishing your committee with copies of this confidential print referred to above. The six chests of copies of documents referred to above, I presume you can obtain from the Sergeant at Arms; but I think that this confidential print, prepared by Mr. Hunt as above stated, would probably give you all necessary information.

Without the permission of the Secretary of State and of this committee I would not, at the present status of the case, feel warranted in furnishing you with printed copies of the confidential print referred to above.

Yours, very truly,

KNUTE NELSON.

DEPARTMENT OF STATE,
Washington, July 1, 1921.

MY DEAR SENATOR NELSON: I beg to acknowledge receipt of your letter on June 27, 1921, advising me of a resolution of the Committee on the Judiciary which requests the opinion of the Secretary of State in regard to the advisability of publishing all or certain portions of the correspondence contained in a confidential print entitled "Foreign Loans and Authority for Making Same."

After careful consideration I have reached the conclusion that a large portion of the material contained in the confidential print is of such a character that its general distribution would be inadvisable.

Much of the material consists of correspondence between various officers of this Government and of confidential memoranda prepared for various Cabinet officers. This correspondence was not drafted with a view to publication, and consequently many

statements were made which it would be undesirable to print in public document, as they contain comments on the affairs of foreign Governments which may be misinterpreted or improperly used. It would, moreover, be inconsistent with international practice to publish correspondence between this Government and foreign Governments without the authority of the Governments concerned. The nature of much of the material is such that it is not likely that foreign Governments would agree to its publication.

I therefore deem it necessary to state that the Department of State would regard the public distribution of Foreign Loans and Authority for Making Same as unfortunate.

I am, my dear Senator Nelson,

Sincerely, yours,

CHARLES E. HUGHES.

Assistant Secretary WADSWORTH. Senator Nelson says [reading]:

That in obedience to a resolution of this committee, adopted March 1, 1921, some six boxes or chests of copies or documents relating to Foreign Loans and Commitments were sent to this committee by the Treasury Department.

The CHAIRMAN. Then, they came from the Treasury Department?

Assistant Secretary WADSWORTH. Then the State Department was brought in, as I understand it, in connection with the suggestion of the Judiciary Committee that this summary of the papers might be given out to the Senate or made public, as stated by Senator Reed; that is where the State Department was brought in.

Senator REED. Mr. Chairman, I can state the matter very plainly and very briefly.

I introduced a bill to repeal all acts under which these loans were made and forbid the advancement of any more money. That bill came before the Judiciary Committee, and the committee called Mr. Houston, the Secretary of the Treasury in. He did not come himself; he sent one of his men, first. I have forgotten his name, but it was a young man. We examined him for some time, and then we asked him to bring the papers. He brought a few papers; and further examination resulted in the Secretary himself coming over and saying that they were willing to produce all of the papers, but that he thought some of them were confidential, and that he felt they would not want to make them public. I asked him to bring the papers, and eventually they were all brought over. They were then examined by the clerk of the committee and by my secretary, and this is a copy; that is, selected papers were taken out and printed in this confidential print [exhibiting print to the committee].

Then, about that time, Congress being in adjournment, and after we reconvened I reintroduced the bill, and the matter was referred to a subcommittee as to whether these documents should be made public. The subcommittee, as a matter of fact, did not examine them thoroughly, and we had some discussion about it in the committee; and then somebody suggested that we ought to get the opinion of the Secretary of State as to whether any of these documents were of such a character that they should not be made public, and after a long debate on that, in order to get some action, I made a motion that that be done, that we get his opinion, and he wrote a letter, in which he says many of them should not be made public.

Senator WILLIAMS. Who wrote the letter?

Senator REED. The Secretary of State. He said they were in regard to negotiations with foreign Governments, etc. I think his letter has been produced here.

With that state of affairs, I stated the facts to the committee here, and the committee passed a resolution asking the Judiciary Com-

mittee to turn the papers over to them, and Senator Nelson has written this letter in response.

We got the documents from the Secretary of the Treasury. So far as I am concerned, I want to say this: I have not read all of this correspondence, but I have glanced through the book. It is a pretty long job to read that book; it is very finely printed. I found nothing in it which it seemed to me did not belong to the people of this country. These laws that we passed with reference to this loan were public laws. The action which had been taken under them was the action of a public official. The laws required that certain things should be done. The question, of course, arises whether they were done and how they were done, and it seems to me an utter absurdity to say that the Senate of the United States, at least, whether in executive or public session, to be determined by that body itself, is not entitled to the facts regarding these loans. If we have a secret department of our Government that is secretly transacting business and expending the people's money, then we have come to a pretty pass in the United States.

Senator CURTIS. There might be some correspondence showing conditions in foreign countries that it would not be advisable to make public—not what our officers had done, but what had come from foreign Governments.

Senator WILLIAMS. I take it that all the papers in the six boxes can not possibly relate to any question either of cancellation or postponement of this indebtedness. I assume that a lot of it relates to the purchase of mules and blankets, munitions of war, and other things. This committee does not want to be encumbered with that whole business. What we want to learn is everything that has been said in relation to postponement, cancellation, or funding.

Senator REED. In addition to that, Senator, the purpose for which the loan was actually made.

Senator WILLIAMS. That will be very pertinent to some other questions, especially questions as to whether the officials went beyond their duty. But it can not be pertinent to this proposed legislation.

Senator REED. Yes; I think it does in this way: Suppose that a country obtained a credit for a large amount of money and obtained it actually for war purposes?

Senator WILLIAMS. Munitions, mules, and blankets, let us say.

Senator REED. Then, clearly, the loan would have been a legal loan, provided securities had been taken.

Senator WILLIAMS. That is another question. But suppose they obtained it for the rehabilitation of their country subsequent to the war. Then the loan, at least in my judgment, would not be a proper loan, and the question as to how it should be dealt with now would be a different question than if a loan had been made for proper purposes, particularly as to the money not yet paid.

The CHAIRMAN. Senator Reed and Senator Williams, the Secretary of the Treasury is here, and he is a very busy man, at the request of some members of the committee, including Senator La Follette. Can you not postpone this reciprocal debate among members and let Senator La Follette go on with the examination of the Secretary?

Senator REED. I am only answering a question.

The CHAIRMAN. But those answers have already taken up a considerable portion of the morning session.

Senator LA FOLLETTE. Mr. Mellon, I will ask, with the permission of the chairman of the committee, whether a memorandum or brief has been prepared for consideration on each one of these loans?

Secretary MELLON. I think not, when it comes to each one. I have not gone into all of the loans. Mr. Wadsworth, can you answer the question of Senator La Follette as to there being a brief on each case prepared?

Assistant Secretary WADSWORTH. No; there has not been. The papers, letters, cables, and other things are filed in a folder relating to each particular subject or country, and when I have been studying this matter I have asked that these files be marked with the letters that would relate to any particular question I wanted to look into, which Mr. Heffelfinger has done; and then I have taken the files, with the correspondence serially as it happened, and in that way I have traced through the negotiations that have taken place.

Senator LA FOLLETTE. Have you summarized that in a brief or memorandum for the Secretary of the Treasury?

Assistant Secretary WADSWORTH. I have not.

Senator LA FOLLETTE. Or for your own guidance?

Assistant Secretary WADSWORTH. I have not.

Senator LA FOLLETTE. Have you made any index upon the files or covers of this correspondence indicating what is in the file, or had it done?

Assistant Secretary WADSWORTH. The index comes to me in the form of little pieces of paper to mark the letters that relate to the particular question I am investigating or studying.

Senator LA FOLLETTE. In that correspondence with regard to the French loan, has there been any application made by the Government for a substitution of the bonds of other Governments for her indebtedness?

Assistant Secretary WADSWORTH. I do not think so.

Senator LA FOLLETTE. Are you certain of it?

Assistant Secretary WADSWORTH. Has there been, Mr. Heffelfinger?

Mr. HEFFELFINGER. No.

Senator LA FOLLETTE. Has there been any correspondence with regard to the substitution of the Turkish bonds for the French bonds come to your notice?

Assistant Secretary WADSWORTH. I have not found anything.

Senator REED. While at that point, may I ask, Senator, if it will not interrupt you?

Senator LA FOLLETTE. Surely.

Senator REED. Has there been any correspondence or negotiations with reference to our Government accepting any of the German reparation bonds after they have been turned over to the allied Governments?

Assistant Secretary WADSWORTH. I can recall of no official communication, or communication from any Government in regard to that matter, except a tentative agreement that was made by the "Big Four," as they called them, or rather by England, France, and the United States, that possibly each Government would take German bonds in payment for the amounts that Belgium had borrowed up to

armistice day. That agreement was signed by the President, and, as I recall it, he submitted it before he went out of office to Congress, as a matter which had come up at the peace negotiations.

Senator WILLIAMS. That related only to Belgium?

Assistant Secretary WADSWORTH. Only to Belgium.

Senator REED. This is the message and document you refer to, is it not? [Handing paper to Assistant Secretary Wadsworth.]

Assistant Secretary WADSWORTH. That is the one, yes. To answer your question directly, that is the only communication I have seen.

The CHAIRMAN. The document will be inserted in the record.

(The document referred to and submitted by Senator Reed is here printed in full, as follows:)

[Senate Document No. 413, Sixty-sixth Congress, third session.]

To the SENATE AND HOUSE OF REPRESENTATIVES:

I herewith call your attention to an agreement with Belgium made by the British and French Premiers and myself, which is embodied in the following letter:

JUNE 16, 1919.

M. HYMANS,

Ministre des Affaires Etrangères, Hotel Lotti, Paris.

SIR: The Reparation Clauses of the draft Treaty of Peace with Germany obligate Germany to make reimbursement of all sums which Belgium has borrowed from the Allied and Associated Governments up to November 11, 1918, on account of the violation by Germany of the Treaty of 1839. As evidence of such an obligation Germany is to make a special issue of bonds to be delivered to the Reparation Commission.

Each of the undersigned will recommend to the appropriate governmental agency of his Government that, upon the delivery to the Reparation Commission of such bonds, his Government accept an amount thereof corresponding to the sums which Belgium has borrowed from his Government since the war and up to November 11, 1918, together with interest at 5 per cent unless already included in such sums, in satisfaction of Belgium's obligation on account of such loans, which obligation of Belgium's shall thereupon be cancelled.

We are, dear Mr. Minister,

Very truly yours,

G. CLEMENCEAU.
WOODROW WILSON.
D. LLOYD GEORGE.

In recommending to you that Congress take appropriate action with regard to this agreement, certain facts should be brought to your attention.

The neutrality of Belgium was guaranteed by the Treaty of London of 1839. In considering the reparation to be made by Germany it was agreed that the action of Germany, in grossly violating this treaty by an attack on Belgium, obligated the German Government under international law to repay to Belgium the costs of war. On this principle the Treaty of Versailles (Art. 232) provided that in accordance with Germany's pledges already given as to the complete restoration for Belgium, Germany should undertake, in addition to the compensation for material damage, to make reimbursement of all sums which Belgium had borrowed from the Allied and Associated Governments up to November 11, 1918, together with interest at 5 per cent per annum on such sums. This obligation was to be discharged by a special issue of bearer bonds to an equivalent amount payable in gold marks on May 1, 1926, or at the option of the German Government on the 1st of May in any year up to 1926.

For various reasons the undertaking defined in the above letter was not embodied in the Treaty. Belgium's obligations to the United States for advances made up to the date of the Armistice amounted to approximately \$171,000,000, and to England and France they amounted, I am informed, to about £164,700,000. In view of the special circumstances in which Belgium became involved in the war and the attitude of this country toward Belgium, it was felt that the United States might well agree to make the same agreement respecting pre-Armistice loans to Belgium as England and France offered to do.

Advances made by the Treasury to the Belgian Government from the beginning of the war to the Armistice amounted to \$171,780,000. This principal sum, however,

includes advances of \$499,400 made to enable the Belgians to pay the interest due November 15, 1917, and \$1,571,468.42 to enable the payment of the interest due May 15, 1918. The interest on the advances has been paid up to April 15, 1919, the interest due from May 15, 1918, to that date having been paid out of Treasury loans for which the United States holds Belgian obligations, which, however, were made after November 11, 1918, the date of the Armistice. This latter advance would not come within the terms of the agreement above mentioned. If, therefore, the United States accepts payment of Belgian obligations given before the Armistice by receiving a corresponding amount of German obligations, it would seem that it should receive German obligations amounting to \$171,780,000 with interest from April 15, 1919.

Although it is understood that England and France will take their share of the German bonds when received by Belgium, I am informed that the Reparation Commission has not as yet finally determined the details of the issuance of the necessary bonds by the German Government. A recommendation at this time that suitable legislative action should be taken may appear somewhat premature, but in view of the approaching termination of my Administration, I have brought this matter to your attention, hoping that suitable action may be taken at the appropriate time.

WOODROW WILSON.

THE WHITE HOUSE, February 22, 1921.

Assistant Secretary WADSWORTH (continuing). That is the only communication I have seen suggesting that German bonds should be taken in payment for the Government's loans.

Senator LA FOLLETTE. Do you know, sir, whether you have seen all of the correspondence pertaining to these several loans?

Assistant Secretary WADSWORTH. I understand so. My predecessor, Mr. Kelly, staid with me a month, and we went over this matter with great care, from one end to the other, and then I went over it all again after he left.

Senator REED. If you will pardon me, I want to read a statement here. I think it bears on this, and I would like to clear it up—I am reading from a report made to some of the press by a press association. [Reading:]

Under the plan any serious consideration—

That is by the allied Government. [Reading:]

(The statement referred to is on file with the clerk to the committee.)

Senator REED. Now, have you heard anything about that plan?

Assistant Secretary WADSWORTH. I never have.

Senator McCUMBER. What is the date of it?

Senator REED. It is very recently.

Senator McCUMBER. That is all I wanted to know.

Senator REED. I can not give you the exact date, Senator, just now.

What I wanted to get at, was whether such a plan as that had been discussed and whether in connection with it it was considered that those bonds might be accepted by the United States.

Secretary MELLON. May I say in connection with that that the only conference that has been held since I was in office was with the British ambassador, and there was no reference at all to anything of that nature during that conference. I never heard of that until it has been brought up now.

Senator LA FOLLETTE. Mr. Chairman, I want to submit a request, to be taken down in this record; and I request that the secretary produce here:

1. Statement of delinquent interest by nations, specifying amount owed by each.

2. Statement of interest actually paid by each nation.
3. Copies of all documents relating to negotiations, including all drafts of proposed plans, and communications between State and Treasury Departments.
4. Statements of all claims of United States against foreign governments.
5. Statement showing for each debtor nation: Amount of total indebtedness and names of creditor nations with amount of each. Annual expenditures of each debtor nation. Annual revenues of each debtor nation.

And I submit that those are important documents, and that the request covers important information that ought to be before this committee for its consideration.

The CHAIRMAN. I suppose that request could be granted without objection. So far as is in knowledge or power of our Treasury Department to obtain it.

Secretary MELLON. Mr. Chairman, although that information has been submitted, except the latter in regard to the—

Senator LA FOLLETTE (interposing). It has been submitted, perhaps, in a desultory way and is scattered through the record where it is difficult to find.

Secretary MELLON. In our late conferences there was a complete report of all that, showing the indebtedness, amount of interest paid, amount of interest accrued and the details, excepting this in regard to the budgets of the Governments—that we have not gone into.

The CHAIRMAN. You have no official knowledge of that?

Secretary MELLON. No official knowledge, but it might be gathered through other papers.

Senator LA FOLLETTE. It is pretty important to know something about the condition of each one of these debtors, if we are going to defer for a period of years, or be asked to defer payment of the debt.

The CHAIRMAN. So far as they are able—but I do not see how an American Secretary of the Treasury or Commerce or any other department would know the financial status of Turkey, except by inquiry.

Secretary MELLON. There would be this, however, that in all of these settlements that would be a part of the procedure to obtain from each Government a statement of their fiscal affairs; that would arise in every negotiation and would be a part of the negotiation.

Senator WILLIAMS. Necessarily incidental to it?

Secretary MELLON. Yes; if we should ever reach it.

Senator WALSH. You ask, Senator La Follette, for correspondence between these foreign governments and this Government. Where there have been personal negotiations do you not think a summary of that ought to be given?

Senator LA FOLLETTE. Instead of the entire correspondence?

Senator WALSH. No; where there has been personal negotiations?

Senator LA FOLLETTE. Yes, indeed; that should be covered.

Senator WALSH. You have not asked for that.

Senator LA FOLLETTE. That was not covered, and I would like to have that added.

Senator WALSH. The Secretary referred to some personal conversation he had with some representatives of other Governments in regard to the matter; unless it is confidential I think you ought to

change that or add to it a summary of personal negotiations as well as of correspondence.

Senator LA FOLLETTE. The stenographer will please add that as No. 6.

(The stenographer thereupon added as follows:)

6. Summary of personal conversation and negotiations had by the Secretary of the Treasury with representatives of foreign Governments.

Secretary MELLON. There [indicating] is the most of that data.

Senator LA FOLLETTE. I know; I was here the day there was a partial statement made.

The CHAIRMAN. Senator La Follette, the Chair is informed by Mr. Wadsworth that all this information has heretofore been printed in the proceedings of this committee, except the indebtedness of foreign nations. You have that with you, have you, Mr. Wadsworth?

Assistant Secretary WADSWORTH. No; we have not.

The CHAIRMAN. Have you got it at the office available?

Assistant Secretary WADSWORTH. No.

The CHAIRMAN. I understood you to say just now——

Secretary MELLON (interposing). To what is reference being made—not the indebtedness to this country?

Assistant Secretary WADSWORTH. To this country; we have it all here, and I think it has been filed.

The CHAIRMAN. But Senator La Follette inquires as to their general indebtedness to other countries.

Assistant Secretary WADSWORTH. We have no record as to that, Senator.

Senator LA FOLLETTE. That is obtainable right in this country without going there for it.

Assistant Secretary WADSWORTH. It is obtainable?

Senator LA FOLLETTE. I have gathered it myself with respect to one country.

Assistant Secretary WADSWORTH. It may be available as to certain dates in the past.

Senator LA FOLLETTE. Certainly.

Assistant Secretary WADSWORTH. But they are constantly issuing new loans and paying off and refunding, and we would have to go back several months to get a balance sheet.

Senator LA FOLLETTE. It would also be true if you got it up to date that before we get through with this investigation there would be some modifications, but you would at least have it up to the time the record is made from which it is taken, and that information can all be assembled if you have the working force to do it.

Assistant Secretary WADSWORTH. We would have to send for it to Roumania or to Jugoslavia or any of these countries; I do not believe there is in this country to-day what we might call a balance sheet.

Senator LA FOLLETTE. I think very likely, Mr. Wadsworth, that that is true with respect to some of the smaller nations.

Senator WILLIAMS. Just one question. I understand that these papers that were sent up in these boxes are contained in different smaller packages; that the smaller packages have upon the outside of them a description of the contents of the package, and each one is collated according to the country with which it deals.

Assistant Secretary WADSWORTH. I understand so.

Senator WILLIAMS. Is that the case?

Assistant Secretary WADSWORTH. That is so.

Senator WILLIAMS. Then in getting at the facts with regard to any particular country, nobody would have to go through all of these six boxes, but could find the several folders relating to that particular country.

Senator LA FOLLETTE. That statement, Senator Williams, does not agree with the statement of Senator Reed as to the conditions in which those papers came to the Judiciary Committee, which statement is now a part of the record of this committee.

Senator WILLIAMS. Senator Reed said they were mixed up in boxes and very difficult to get at; but while that is true, I understand each one is contained in a separate cover.

Assistant Secretary WADSWORTH. Mr. Heffelfinger could take those boxes and the files contained therein and segregate them in a very short time, to show exactly what related to each country, just as he would in our own files in the Treasury; he could pick the files right out.

Senator SIMMONS. Mr. Secretary, the bill which you have asked the Congress to pass with reference to this matter suggests a possible plan of substituting the bonds of one Government for those of another in settlement with the United States. Would it unduly embarrass your negotiations if some limitation was placed upon your power to make that substitution?

Secretary MELLON. There is no plan for substituting securities suggested. It is only this, that it will just give the broad power which could be used in case the necessity arose with some particular Government, and it was only to meet a contingency that might possibly come up. We do not know of any nor expect any situation of that sort, but it was thought better to have a broad authority, so that we could meet whatever contingency might arise in the negotiations, and not only for the purpose for the particular negotiation with that country, but after the refunding has been accomplished and the papers have been passed there would be no question then as to the broad authority, and the question would not then arise in the future, with respect to any of these loans or any of the securities, that there was not authority to put them in the shape that they had been put in—that it was better to have a broad, simple authority that gave the Treasury Department, with the approval of the President, that power. It is much better to have it in that shape for the refunding of these loans after the refunding has been accomplished.

Senator SIMMONS. In other words, if I understand you, you say you would like to have this so that after you have completed the process of refunding that the substitution might then be made?

Secretary MELLON. Oh, no, no; there is no anticipation of any such substitution.

Senator SIMMONS. I know you stated——

Secretary MELLON (interposing). But there might arise something of that sort. It was thought better to have a broad authority, so that whatever contingency arose it could be met and the refunding accomplished; and then, having this broad authorization, there would not afterwards be any question about the validity of the security, because it would be obvious that that authority was broad and gave all of the authority necessary.

Suppose you limited it in any particular place. Then afterwards these securities would be scrutinized by a lawyer, and he would raise the question, "Well, the Secretary of the Treasury did not have authority; that refunding was done without authority, and these securities are not in valid and legal shape."

Senator SIMMONS. I understand you to say that you have no thought of agreeing to such a substitution. But I had interpreted your bill as giving you the authority to do that in case you saw fit to do it. Now, if you do not need the authority we might eliminate it. If you do need the authority, there are exigencies which might arise when you would want to do this thing; then my question was, in case of that contingency would you be embarrassed or hampered unduly by some qualifications?

Secretary MELLON. Well, it would be only that in order to accomplish what would be necessary I would have to apply again to Congress for authority in that particular case, and it would be very much better to have a broad authority that would not make it necessary to come to you.

The CHAIRMAN. It has been stated that a section be added to the bill reading as follows:

The authority hereby granted shall cease and determine at the end of five years from the date of the approval of this act.

I want to have that entered in the record, that I may submit it to the committee at a proper time in executive session; and I ask the Secretary of the Treasury while he is here whether such an amendment would hamper him in any way or be objectionable?

Secretary MELLON. Not in the least; that is, I think——

Senator LA FOLLETTE. Where does that amendment emanate from?

The CHAIRMAN. I want to make that section No. 2.

Senator LA FOLLETTE. That is an amendment you are going to offer?

The CHAIRMAN. I want to submit it to the committee for its consideration.

Secretary MELLON. There can be no objection to that amendment, if all of the refundings have been completed.

Senator SIMMONS. Mr. Secretary, I want to ask you this question in connection with that: That confers upon you this power for the full period of five years. You have no idea it is going to take any such time as that to make this negotiation, do you?

Secretary MELLON. No; I should not expect it to take anything near that length of time. But, of course, there may be some of these countries where they will not be in a condition to act, and something may have to be done that will take considerable time, and it is rather difficult to anticipate just how long it will take.

Senator SIMMONS. Would it, in your opinion, take any very great length of time to bring about an adjustment with the leading nations?

Secretary MELLON. I think not.

Senator SIMMONS. There was something in the debates on Friday, on the bonus bill, with reference to the delaying of action upon that bill until after this refunding process was completed; and there was some suggestion that probably that would not delay action more than five or six months, if that long.

Secretary MELLON. I did not understand it that way. I thought the delay was in regard to the funding of loans of this Government. It had not reference to the foreign loans.

Senator SIMMONS. It had not? Possibly I am mistaken about it.

Senator LA FOLETTE. No; you are mistaken about it. The President, in his participation in the debate upon the bill, suggested three things that were necessary to be done before we took up any consideration of gratuities to the soldiers, as he termed them. The first thing was the reduction of taxation; the second was the refunding of the war debt; and the third was the refunding of these foreign debts. That was the President's statement in his debate upon the bill.

Senator REED. I may have misunderstood you the other day, Mr. Secretary. I thought you said to me that you objected to a limitation of time in which to make these settlements; that you wanted a free hand in the matter, and you could not tell what time it would take.

Secretary MELLON. All of these obligations are existing now, Senator, and it should not take more than the length of time mentioned in this amendment; so that I can see no objection to putting in the limitation.

Senator REED. Would you be willing to have a limitation of six months put on?

Secretary MELLON. I do not think it would be possible to get through in six months.

Senator REED. Would you be willing to have a limitation of a year put on?

Secretary MELLON. I do not think it would be possible to get through with them all in a year.

Senator REED. How about two years?

Secretary MELLON. I do not know, but it might possibly be done. It might not. It seems to me that it would be better to have time enough. There may be some particular case where they have to be nursed along and put in shape that will take longer than we expect. I think it is better to have a reasonable time.

Senator REED. I want to try to see if I can get two or three things clear.

Would you consider the question of accepting German obligations for the obligations of any of these countries to whom we have loaned money, or for any part of the obligation?

Secretary MELLON. So far as I know now, I would not.

Senator REED. Would you do that in the case even of Belgium?

Secretary MELLON. In the case of Belgium I can not see why that should be considered.

Senator REED. Would you consider the question of taking the obligations of any one of these countries for the obligations which some other of the countries owe us?

Secretary MELLON. I do not anticipate that that question will arise, but it might arise.

Senator REED. You might do that?

Secretary MELLON. There might be a case where it would be desirable to do that, but I have not any such example in mind.

Senator REED. You did have a transaction the other day, or a little while back, by which an obligation which was due to us from the French Government was in fact transferred to the Italian Government?

Secretary MELLON. Yes.

Senator REED. I read in the Washington Star yesterday a statement to the effect that you had recently paid England a large sum of money. Is that correct?

Secretary MELLON. Yes. That was a settlement on account of transportation of troops during the war between the War Department and the British Government. It had nothing to do with any of the obligations of Great Britain to this country. It was one of the current bills for services performed by England, and those accounts have been from time to time rendered and paid all through the war, and this was a final settlement that was made.

Senator REED. How much was paid?

Secretary MELLON. \$32,000,000.

Senator REED. You say that this country had nothing to do with it. This country, in fact, did pay to England \$32,000,000, did it not?

Secretary MELLON. Certainly.

Senator REED. At the same time England owed us a claim growing out of transportation, did it not?

Secretary MELLON. England owed the Shipping Board about \$12,000,000.

Senator REED. For what?

Secretary MELLON. For services to England of the Shipping Board.

Senator REED. In hauling stuff to England during the war?

Secretary MELLON. Yes. And the British Government objected to some of those charges, and that claim had not been adjusted. But the British Government had always paid all of these claims very promptly when they were presented, and this claim had not yet been adjusted. The British Government was ready to pay it as soon as the adjustment was completed, and so there was no occasion to take that into consideration.

Senator REED. But, as a matter of fact, with a claim advanced by the Shipping Board of \$12,000,000 plus, we paid a claim of Great Britain against our War Department of \$32,000,000?

Secretary MELLON. Yes; but the claim of \$32,000,000 had been completed, had been adjusted and agreed on. The other had not, and therefore was not ready for payment, and there was no reason existing why one should wait on the other, because the British Government had always paid claims promptly when they were adjusted.

Senator REED. When we paid this claim to Great Britain of \$32,000,000, Great Britain had not been prompt in paying interest upon the money we had loaned Great Britain, had it?

Secretary MELLON. This arose from the dealings between the War Department and a British department, and it was not connected with the Treasury. The Treasury had nothing to do with the adjustment of the accounts or the settlement except to pay the money on the requisition of the War Department. Those were current claims that had all through the war been settled in that manner. There was no reason why it should be complicated with the large indebtedness of Great Britain.

Senator REED. I know that is your opinion, but the claim of the Shipping Board was for hauling materials and rendering service to Great Britain during the time the war existed, was it not?

Secretary MELLON. Yes.

Senator REED. So that it has now been in dispute or in process of settlement ever since the armistice?

Secretary MELLON. I do not know about ever since the armistice. This settlement of the War Department had been arrived at a month or so ago, or perhaps earlier than that.

Senator REED. I am speaking of the claim of our Shipping Board now.

Secretary MELLON. Oh. That has not been settled or adjusted yet.

Senator REED. No; but I am speaking, Mr. Mellon, about whether the services rendered by our Shipping Board were rendered before the armistice.

Secretary MELLON. I presume they were. I do not know positively.

Senator REED. And ever since that time there have been negotiations on in regard to the settlement and it has not been completed yet?

Secretary MELLON. Yes.

Senator REED. With reference to the British claim, it arose out of the transportation of our troops and materials during the war, did it not?

Secretary MELLON. Yes.

Senator REED. When was it finally settled?

Secretary MELLON. Do you know when it was finally settled, Mr. Wadsworth?

Mr. WADSWORTH. I think Gen. Connor and the representative of the British ministry of shipping came to an agreement on the matter in March.

Senator REED. Of this year?

Mr. WADSWORTH. Yes. I do not remember the exact date. They finally decided the various claims and came to a figure of thirty-two million dollars odd.

Senator REED. All these claims are basically the claims of one government against the other?

Secretary MELLON. Yes.

Senator REED. But the Shipping Board, being a branch of our Government, presented a claim to this Government, and the War Department, being another branch, had a claim against Great Britain, and Great Britain had a claim against us.

Secretary MELLON. Yes.

Senator REED. The amount of it is that we paid \$32,000,000 to Great Britain with them owing us at least \$12,000,000. The amount that we claimed was \$12,000,000, and with them owing us how much interest?

Secretary MELLON. A very large amount. I do not know exactly.

Senator REED. Did you make any effort to get them to credit that on the interest?

Secretary MELLON. Oh, no. As I say, the custom has been all along that those claims were met and paid when presented. The British Government also paid to this country large amounts in settlement of claims of that nature. For instance, under the Pittman Act the British Government has paid large amounts of indebtedness to this Government. Those matters are current matters that come up and are settled and paid when the accounts are adjusted, and there was not any reason why that should be complicated with the other obligation.

In the first place, as a matter of proportion, they are very small in proportion to the whole obligation of the war debt.

Senator REED. You say they were current matters?

Secretary MELLON. Yes.

Senator REED. You do not mean they are current now. All these obligations were incurred prior to the armistice, were they not?

Secretary MELLON. Part of the claims arose from returning troops from abroad since the armistice.

Senator REED. That was all a good while ago?

Secretary MELLON. But it has been since the armistice.

Senator REED. Yes. When you used the term "current matters" you meant they were matters that had been settled between the Governments at about the time the obligations were generally incurred? You did not mean that they are current matters now?

Secretary MELLON. Oh, no. They were just between the departments of the Government, between the War Department and the British Government.

Senator REED. This \$32,000,000 was a balance, was it not?

Secretary MELLON. It was for the specific settlement of an account owing.

Senator REED. It was a balance due on a very much larger account was it not?

Secretary MELLON. No; I think not.

Mr. WADSWORTH. It was the final clean-up between the War Department and the British ministry of shipping which showed that much owing by the United States War Department.

Senator REED. But we had paid them a very much larger sum than that in the past, had we not?

Secretary MELLON. Presumably we had.

Senator REED. Do you know how much it was?

Secretary MELLON. I have no idea.

Senator SMOOT. May I make a statement? I am compelled to go—

Senator REED. I am through with this line of questions.

Senator SMOOT. I just received word that the Secretary of War had prepared a letter with certain suggestions in relation to the Sweet bill that, in his opinion, are very, very material and of great importance. Therefore, when you adjourn this meeting, would you adjourn it until to-morrow morning at 11 o'clock? I want the committee to take up the Sweet bill and get through with that, and by that time I will have the letter of the Secretary of War.

The CHAIRMAN. Do you mean 10.30 o'clock or 11 o'clock?

Senator SMOOT. I would rather have it at 10.30 if I could.

The CHAIRMAN. There is a disposition to proceed with this loan bill.

Senator SMOOT. I do not think, Mr. Chairman, it is going to take very long, now.

The CHAIRMAN. Ask Senator La Follette about it. I do not know how much Senator La Follette wants to prolong this examination.

Secretary MELLON. May I suggest that to-morrow is a Cabinet meeting.

The CHAIRMAN. When the committee adjourns, if there is no objection, the program will be that the Sweet bill will be considered and that the loan bill shall not be taken up until a later meeting. It will

go over to-morrow on account of the engagement of the Secretary of the Treasury. The committee, when it adjourns, will adjourn until 10.30 o'clock to-morrow to consider the Sweet bill.

Does any one desire to address any further inquiry to the Secretary of the Treasury to-day?

Senator WALSH. I would like to ask the Secretary his opinion of an amendment that I would like to offer to the committee, the amendment to be called "section 3," and to read as follows:

The Secretary of the Treasury shall immediately transmit to the Congress copies of any refunding agreements, entered into, with the approval of the President, by each foreign Government upon the completion of the authority granted under this act.

Secretary MELLON. I think that would be an obstruction to the negotiations and it would not be practical to carry through these negotiations if the questions have to be submitted to Congress.

Senator WALSH. I do not think you get the purport of the amendment. This is assuming that the Senate permits the negotiations to be made by you subject to the approval of the President, without any approval of Congress. I propose to ask that as soon as negotiations with each foreign country are completed a copy of the agreement be transmitted to the Congress.

Secretary MELLON. The difficulty there is that when the negotiation with the country involved is completed, then they have the right to suppose that it has been completed and that mutual concessions and agreements that have arisen in the negotiations will have been adjusted and the conclusion arrived at.

Senator WALSH. This is not to be transmitted for our approval, but for our information.

Secretary MELLON. Oh; I can not see any objection to it, then.

Senator WALSH. I thought you would not. In other words, the public and the Congress will know what the result of your negotiations with a government has been.

Secretary MELLON. I can not see any objection to that.

Senator REED. But you are utterly unwilling to have the matter submitted to Congress in advance?

Secretary MELLON. I do not think that would be feasible, to work in that manner.

The CHAIRMAN. You refer, Mr. Reed, to Mr. Walsh's amendment about referring it to the Senate for confirmation?

Senator REED. I was referring to the general proposition.

The CHAIRMAN. I suggest that this amendment also, Mr. Walsh, be inserted in the record.

Senator WALSH. You mean my other amendment?

The CHAIRMAN. Yes. Let it be inserted in the record at this point.

(The amendment referred to is as follows:)

[S. 2135, Sixty-seventh Congress, First session.]

AMENDMENT Intended to be proposed by Mr. Walsh of Massachusetts to the bill (S. 2135) to enable the refunding of obligations of foreign Governments owing to the United States of America, and for other purposes, viz:

On page 2, line 11, add: "Provided, That no agreement with a foreign government with respect to any measure hereinbefore authorized shall be deemed to have been completed, nor to enjoy full force and effect, until it shall have been specifically embodied in a convention duly concluded by the President of the United States and ratified and proclaimed by him, by and with the consent and advice of the Senate of the United States, under Article II, section 2, clause 2, of the Constitution of the United States."

Secretary MELLON. What would be the effect, then, Senator Walsh, if a particular negotiation had been completed and agreed upon with a Government, and then that had been given to the Senate for their information, as you say, and for confirmation?

Senator WALSH. Not for confirmation; only for information. In other words, instead of waiting for your annual report to be made, as each negotiation is completed you will send a special message saying the negotiations have been completed and the result is as follows. It is simply for the information of Congress.

Secretary MELLON. Yes; I see.

The CHAIRMAN. Senator La Follette, have you any further inquiry to address to the Secretary at this stage?

Senator LA FOLLETTE. Not this morning.

The CHAIRMAN. Do you desire him to be here on Wednesday?

Senator LA FOLLETTE. No; not until I have looked into some matters that I want to investigate.

The CHAIRMAN. Then, when this committee adjourns, the hearing on the loan bill will be postponed until I can confer with you. Is that the point? You were absent from the room. It has been agreed on account of the Cabinet meeting to-morrow, and for other reasons, to have this bill go over to-morrow and to take up the Sweet bill to-morrow. Would it be convenient and agreeable to take up this loan bill on Wednesday, in view of the adjournment over on Tuesday?

Senator LA FOLLETTE. I think it would; but I do not know that I shall want at that time to ask any questions of the Secretary. I may want to ask the committee to call some other witnesses and interrogate them, and then that may develop some things that may make it necessary to call Mr. Mellon.

The CHAIRMAN. When will you be in position to inform me so that I may call the witnesses for Wednesday?

Senator LA FOLLETTE. I think in time to get them.

The CHAIRMAN. All right. Then the committee, as I have already stated, will meet on Wednesday and resume consideration of the loan bill and hear such other witnesses as Senator La Follette may request the Chair to invite.

Secretary MELLON. In relation to the suggestion to refer this matter to the Senate for their information upon the completion of any particular settlement that may be made, it occurs to me that that might be embarrassing in this respect: These settlements will have to be proceeded with separately; that is, one concluded, say, with Great Britain, and then the next taken up, say, with France. It might be embarrassing to have Great Britain's case made public before our negotiations with France. I do not know, but you can see that these settlements will follow similar lines with the separate Governments. It may or may not be embarrassing to have one made public when we are proceeding to a settlement with another Government immediately afterwards.

I would like to think about that and report at the next meeting.

Senator WALSH. I had in mind that you might possibly make that suggestion.

Secretary MELLON. I will be prepared at the next meeting to answer your question.

Senator REED. I want to give you another question to think over.

Why is it that you can not make these settlements in strict accordance with the terms of the acts of Congress authorizing these loans and specifying the conditions of the obligations?

Secretary MELLON. The reason is this, that the securities taken would not be in as good form for the purposes of our Government because the authority there is so restricted that it makes it very difficult. Our securities taken from England, for instance, would be split up and some of them bear one rate of interest and others bear another rate of interest, because the rates of interest were different under the several Liberty loan acts, and we would have to follow each particular act for the settlement of that part of the claim.

Senator REED. But the law contains a clause that if the Government of the United States, in order to get this money, is to pay different rates of interest and borrow on different terms, the bonds shall be adjusted accordingly.

Secretary MELLON. Yes.

Senator REED. Why, under that authority, can you not go ahead and make these settlements and take these obligations?

Just think about that and give us your opinion when you come back.

Senator LA FOLLETTE. Mr. Chairman, is any further action to be taken in regard to this committee having access to the correspondence?

The CHAIRMAN. I would be very glad if that matter could be cleared up.

Senator Reed has that somewhat in charge for the committee, and I would like to ask Senator La Follette to address his inquiry to Senator Reed and find out just what he wants. I do not know what you want, exactly. You say all this voluminous material you can not examine.

Senator LA FOLLETTE. Mr. Wadsworth made the suggestion here during the course of this hearing that Mr. Heffelfinger—who, I judge, is the file clerk in your office——

Mr. WADSWORTH. Yes.

Senator LA FOLLETTE (continuing). Is entirely familiar with these documents, and he could go through them, if this committee had access to them. But it was suggested, I think, by the Secretary of the Treasury, that the papers really belonged to the Treasury Department and that it is for the Treasury Department to turn them over without respect to the State Department. They do not come from the files of the State Department.

The CHAIRMAN. Can you serve as a subcommittee of one to have these boxes here tomorrow morning, Senator Reed?

Senator REED. I will serve as a subcommittee of one and make the effort, but from Senator Nelson's letter I take it that he will do nothing unless the Judiciary Committee advises him to do it. That committee has adjourned, but I will try to get——

The CHAIRMAN. You might poll it.

Senator REED. If I can not do anything else I will get the committee to return the documents to the Treasury.

The CHAIRMAN. I would like to have them produced to-morrow if possible.

Secretary MELLON. There is one other matter that Senator La Follette proposed, and that is that we furnish the budgets or the financial statements of these governments. That will take a very long time. I do not believe that they can be gathered together within what would be a reasonable time to submit to this committee. It will be difficult to obtain all of that information.

The CHAIRMAN. Could they not be obtained by cable?

Senator LA FOLLETTE. I believe that a great deal of that information can be secured in the foreign publications on file in the Congressional Library. You could not bring the information down to the last minute, beyond any question, if you relied upon those foreign publications, but you can bring it down to the last time a public statement was made, and you could simply do the best you could; and that information would be before the committee, and if it thought it important to secure later data upon the subject it would be for the committee to say.

Secretary MELLON. We can see what can be done.

The CHAIRMAN. The committee stands adjourned until to-morrow morning at half past 10 o'clock.

(Whereupon, at 12.05 o'clock p. m., the committee adjourned until to-morrow, Tuesday, July 19, 1921, at 10.30 o'clock a. m.)

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

WEDNESDAY, JULY 20, 1921.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met pursuant to adjournment, at 10.30 o'clock a. m., in room 312, Senate Office Building, Washington, D. C., Senator Boies Penrose presiding.

Present: Senators Penrose (chairman), McCumber, Smoot, La Follette, Curtis, Watson, Calder, Sutherland, Simmons, Gary, Reed, and Walsh.

Present also: Hon. Andrew M. Mellon, Secretary of the Treasury, and Hon. Eliot Wadsworth, Assistant Secretary of the Treasury.

The CHAIRMAN. The hour of 10.30 having arrived, the committee will come to order. The Secretary of the Treasury is here and the papers and archives relating to correspondence with foreign nations, already referred to in these proceedings as having been sent to the Judiciary Committee by the Secretary of the Treasury, have been delivered to this room, through the courtesy of Senator Nelson, the chairman of the Committee on the Judiciary. They have been brought here largely at the suggestion of Senator La Follette.

Secretary MELLON. We were also requested to make a report on the conditions of any of the foreign Governments owing this Government, the condition of their budgets, and Mr. Wadsworth has with him as much of that information as we could gather up until this time, which is pretty complete, excepting that it is not up to date, I believe.

Assistant Secretary WADSWORTH. I might add, Mr. Chairman, that we have here, in accordance with the request made at the last meeting, a statement showing the delinquent interest by nations, specifying the amount due by each. We have a statement of the amount actually paid by each nation. We have in these boxes copies of all documents relating to negotiations, excepting that I thought we might add to that the copy of the Secretary's letter to the British ambassador sent this spring, which has been referred to already, bringing the information up to date.

Secretary MELLON. That followed the last conference I had with the British ambassador, and that furnished to him this information which he had asked for.

The CHAIRMAN. Has that letter ever been published?

Secretary MELLON. No.

The CHAIRMAN. Where is it?

Assistant Secretary WADSWORTH. The information sent to him is all in those boxes.

Secretary MELLON. But the letter itself went to the ambassador. We have a copy of that.

The CHAIRMAN. Is there any objection to publishing it?

Senator SMOOT. I thought we were going to print the whole information.

The CHAIRMAN. He said his information covered everything in this letter. Did I understand you correctly, Mr. Wadsworth?

Assistant Secretary WADSWORTH. This is merely a summary of it.

Secretary MELLON. Is it the intention to make it public?

Senator SMOOT. To make it a part of the record.

Secretary MELLON. It is all right to make the letter a part of the record. I thought the inquiry was as to the advisability of having newspaper publicity.

Assistant Secretary WADSWORTH. I would suggest that it be treated just as you treat the information in these boxes.

Senator SMOOT. Then, I do not request that it be made a part of the record.

Senator LA FOLLETTE. I am going to request that everything be made a part of this record. I think this is the people's business.

The CHAIRMAN. There is no doubt about it; these are public meetings.

Senator LA FOLLETTE. There was some suggestion about suppressing the publication of these records.

Secretary MELLON. No; there is no idea of suppressing anything in the records of these meetings.

Senator LA FOLLETTE. You say you have there a complete response to the request which I filed here for definite information?

Assistant Secretary WADSWORTH. Yes; so far as we can go in getting the information about the foreign nations.

Senator LA FOLLETTE. You may proceed to give it so that I can follow you and see how completely it answers the request.

Assistant Secretary WADSWORTH. The first is a statement of delinquent interest by nations, specifying the amount owed by each.

The CHAIRMAN. That is interest owing to the United States?

Assistant Secretary WADSWORTH. That is interest owing to the United States.

Senator LA FOLLETTE. And it is complete?

Assistant Secretary WADSWORTH. It is complete.

Senator LA FOLLETTE. Up to what date?

Assistant Secretary WADSWORTH. Up to the last interest date upon each individual obligation.

Senator LA FOLLETTE. Just refer to your memorandum there, if it gives the information, and make a statement with reference to each one.

Assistant Secretary WADSWORTH. The obligations have different dates.

Senator LA FOLLETTE. I understand that.

Assistant Secretary WADSWORTH. The interest is payable every six months. We have figured the interest on each obligation up to the last interest date.

Senator LA FOLLETTE. What is the last interest date for each one of those debtor nations? It is stated on your memorandum there, is it not?

Assistant Secretary WADSWORTH. No; because the obligations have a great variety of dates. They were given at different times and the interest is payable each six months.

Senator LA FOLLETTE. Every six months from the date of the obligation?

Assistant Secretary WADSWORTH. We have not tried to bring it up to last night. We have brought it up to the last interest date.

Senator LA FOLLETTE. Just give me, if you will, please, the amounts of each of those countries.

Assistant Secretary WADSWORTH. The interest accrued and unpaid up to and including the last interest period.

Armenia.....	\$1, 009, 868. 67	Latvia.....	\$386, 962. 52
Austria.....	721, 671. 27	Liberia.....	1, 568. 85
Belgium.....	34, 007, 409. 62	Lithuania.....	496, 162. 80
Czechoslovakia.....	8, 125, 165. 24	Poland.....	9, 837, 443. 36
Esthonia.....	1, 389, 668. 37	Rumania.....	3, 477, 534. 09
Finland.....	598, 339. 79	Russia.....	26, 120, 560. 18
France.....	284, 148, 863. 64	Serbia.....	4, 778, 797. 79
Great Britain.....	407, 303, 283. 03		
Hungary.....	50, 575. 07	Total.....	943, 534, 755. 99
Italy.....	161, 078, 880. 80		

Senator WATSON. That is exclusive of any interest heretofore paid by any or all of these nations?

Senator LA FOLLETTE. And how many of these debtor Governments have paid any interest at all?

Assistant Secretary WADSWORTH. That is the next statement. I have a statement here of interest heretofore paid.

Senator LA FOLLETTE. Yes; I see that. That is really my next question here. Will you please give that?

Assistant Secretary WADSWORTH (reading):

Belgium.....	\$13, 014, 918. 42	Liberia.....	\$861. 10
Cuba.....	1, 282, 369. 54	Poland.....	1, 290, 620. 78
Czechoslovakia.....	304, 178. 09	Roumania.....	263, 313. 74
France.....	139, 570, 376. 13	Russia.....	4, 842, 534. 33
Great Britain.....	245, 557, 185. 50	Serbia.....	636, 059. 14
Greece.....	784, 153. 34		
Italy.....	57, 598, 852. 62	Total.....	465, 271, 688. 92
Latvia.....	126, 266. 19		

Senator LA FOLLETTE. Not having the table before me, I could not make certain that each of these nations has made payment. Does the table show that they have?

Assistant Secretary WADSWORTH. No.

Senator LA FOLLETTE. What nations have made payments?

Assistant Secretary WADSWORTH. The nations that have not made payments are Armenia, Austria, Esthonia, Finland, Hungary, and Lithuania.

Senator LA FOLLETTE. As to the payments made by the nations that have met the interest, in so far as you have stated that they have met it, has the payment by any of them been made through additional loans to them by the United States Government?

Assistant Secretary WADSWORTH. Yes, sir—

Senator LA FOLLETTE. Which ones?

Assistant Secretary WADSWORTH. I should suppose a large proportion of it was paid during the war out of advances made by this Government.

Senator LA FOLLETTE. Can you state from your own knowledge whether any of them have paid interest otherwise than through advances made by this Government?

Assistant Secretary WADSWORTH. I know that some of them have, but the amounts are comparatively small.

Senator LA FOLLETTE. Can you state which nations from your recollection?

Assistant Secretary WADSWORTH. I know that Poland made a payment, but I do not recall how much. About a year ago they made a payment on account of interest.

Senator REED. But did they not make that out of moneys they got from us?

Assistant Secretary WADSWORTH. As I understand it; no.

Senator REED. How much was it?

Assistant Secretary WADSWORTH. I could not say.

Senator REED. Was it large or small?

Assistant Secretary WADSWORTH. It was small. The bulk of this money was paid out of advances made by this Government.

Senator REED. Do not your records show in every instance whether that is true or not? When you let a country have money, did you not ascertain the purpose for which it was advanced?

Assistant Secretary WADSWORTH. I looked that up and found a statement that in advancing money to these nations one of the needs of the nations that was taken into consideration was the fact that they were to pay interest upon the loans from this Government.

Senator REED. You have some correspondence about that, have you not?

Assistant Secretary WADSWORTH. Presumably we have. I have never looked into that. It is a very voluminous correspondence, showing everything that went back and forth between these Governments as to what their needs were.

Senator REED. Where is that correspondence?

Assistant Secretary WADSWORTH. I presume it is all in the Treasury.

Senator REED. Why have they not been produced? We have called through the Judiciary Committee repeatedly for all this correspondence, and, finally, five or six great boxes were brought over there. I now find that the general correspondence was not in those boxes; that there is correspondence with reference to particular nations, but the general correspondence has still been withheld from this committee and from the Judiciary Committee. Now you say there is a statement, and a very voluminous statement, showing the purposes for which this money was advanced. Why do you not bring that statement here?

Assistant Secretary WADSWORTH. Well, I am not familiar with that, Senator Reed.

Senator REED. Who is? Somebody is.

Assistant Secretary WADSWORTH. These nations, as I understand it, went to what was called the general purchasing committee which handled all these purchases. They carried on negotiations with that committee for certain material that they wanted, and then the Treasury advanced the money from time to time to meet the liabilities that were incurred in purchasing through that general committee.

Senator REED. Who composed the general purchasing committee?

Assistant Secretary WADSWORTH. That I could not say. It was an interallied committee that sat here in Washington.

Senator REED. Who does know about that?

Assistant Secretary WADSWORTH. I could find out about it very easily. I was not here at that time.

Senator REED. What has that general purchasing committee got to do with the question of the payment of interest?

Assistant Secretary WADSWORTH. Nothing, except that the needs for money by these nations were created partly by that general purchasing committee, largely by them; but also partly by the necessity for paying interest; and the Treasury took into consideration in making these advances the fact that the nations needed money to pay interest. So that substantially all this interest can be taken as having been paid out of advances by the Treasury.

Senator REED. I understand that, but I want to find out what it was advanced for. I have been spending now part of my very valuable time for about three months to ascertain that very simple fact. You say there is a comprehensive statement showing what these moneys were paid for, and then you introduce into the subject matter a purchasing committee, but a purchasing committee could not have had anything to do with the payment of interest. If there is such a statement as you have referred to, why is it not brought here and laid down on this table so that this committee can see it?

Assistant Secretary WADSWORTH. I did not say "a comprehensive statement." I think I said a very voluminous statement. I imagine it would be necessary to go through all the records of that purchasing committee which carried on all the interallied purchasing here.

Senator REED. Are there not data in the Treasury Department which will show us—let us take Great Britain, for instance—the amounts of money that it received at various times, the purposes for which Great Britain said it was going to employ those particular moneys, and the establishment of a credit to meet those amounts? Is there any such statement?

Assistant Secretary WADSWORTH. I have never looked into that. I do not know.

Senator REED. Does Mr. Heffelfinger, the gentleman who is sitting here at my left, know about it?

Mr. HEFFELFINGER. We would have to go through the boxes that pertain to Great Britain and look at every letter to see what they asked for.

Senator REED. There is nothing in your books to show what this money was advanced for? Were the books kept in such shape down there that when there was a large sum of money paid out of the Treasury an entry was not made in the books to show the purpose for which the money was paid out? Does it contain a lot of scraps of paper dumped into boxes? Is that the way the Treasury keeps its accounts?

Assistant Secretary WADSWORTH. I am not familiar with the way in which they arrived at the amounts of the credits or debits.

Senator REED. Is there any human being that can go through those files and give us a statement of these loans and advances, when they were made and what they were made for?

Assistant Secretary WADSWORTH. Oh, I have no doubt of that.

Senator REED. I would like to have, Mr. Chairman, just that kind of a statement, and I would like to have the correspondence produced upon which those advancements were made, which will disclose the whole purpose of an advancement or a commitment. I say to the

chairman of this committee that the records of the Judiciary Committee will show that repeated efforts were made to secure this information. It does not seem to be able to get it. I am sure that the present Secretary of the Treasury can get it for us and will get it for us.

Assistant Secretary WADSWORTH. May I refer, Mr. Chairman, to Exhibit 26 in the Annual Report of the Secretary of the Treasury, appearing on page 338, which shows the particulars of credits established and the expenditures under the heading, "Munitions, including remounts; munitions for other Governments, exchange and cotton purchases, cereals, other foods, tobacco, other supplies, transportation, shipping, reimbursements, interest, maturities, relief, silver, food for northern Russia, purchases from neutrals, special credit against credits to be established for United States Government war purchases in Italy, and miscellaneous." It sets forth the exact amounts and for what purposes they were expended.

Senator REED. I find on page 338 a table headed "Summary of credits established in favor of foreign Governments, advances made to them, and expenditures reported by them for period April 6, 1917, to November 1, 1920." In the first column, opposite the word "Interest," are the figures \$730,504,176.91. Does that indicate that we advanced to them to pay their interest \$730,504,176.91?

Assistant Secretary WADSWORTH. I presume it does.

Senator REED. That only brought us up to November 1, 1920. Can you tell us whether there has been money since that time advanced to pay interest?

Assistant Secretary WADSWORTH. Very little, if any. I should have to look it up. Substantially, the interest payments stopped in the spring of 1919.

Senator REED. Will you not give us a statement showing the exact amount of money that was advanced by this Government to pay interest to each government, the exact amount of interest paid by each government, the exact amount of interest in default by each government, all on one little piece of paper so we can have it before us?

Assistant Secretary WADSWORTH. I think that is in this statement here. I should have to take those figures and assemble them with these. I have just read the figures of delinquent interest and the interest paid, and there are the figures of the amounts which we advanced for interest.

Senator REED. There are items carried out here, but they do not cover Poland. Poland appears to be omitted from this table. It appears to be omitted from practically all of these tables, so far as I observe.

Assistant Secretary WADSWORTH. Poland received no money under the Liberty loan act, as I understand it. Poland's advances were under the relief act and the authority to sell war materials.

Senator REED. Well, they got some money.

Senator WATSON. From the United States Grain Corporation, I think.

The CHAIRMAN. We are safe in assuming that the payments of interest have been few and far between.

Senator SMOOT. There were \$720,000,000 of it.

The CHAIRMAN. The money we have advanced they have been paying back.

Senator SMOOT. Congress authorized an advance to these people to assist in the war of \$10,000,000,000.

Senator LA FOLLETTE. It never authorized the advancement of money to pay interest, and we have no opinion from any legal authority anywhere that that is authorized or ever has been authorized.

Senator REED. Mr. Chairman, I do not want to interrupt Senator La Follette in the course of his examination—

Senator LA FOLLETTE. Go right ahead.

Senator REED. But since we are on this point may I call the attention of the committee—

The CHAIRMAN. May I call your attention for a moment, first, to the fact that I want to extend, so far as I have any jurisdiction in this matter, the greatest latitude to this examination, but this committee is getting very much crowded; the tariff bill will be in our possession on Friday, and we can not make this examination, interesting as it may be, interminable.

Senator LA FOLLETTE. It can be shortened up a good deal, Mr. Chairman, if the documents and papers that we are asking for are brought here and brought here in such form as will make it possible for us to proceed with this examination.

The CHAIRMAN. I do not think there can be any fair criticism made when any paper that is obtainable is furnished the day following the one on which the request is made for it.

Senator REED. I do not think there can be any fair criticism made of the present Secretary of the Treasury, but the point I wanted to call attention to is this: I find here on page 58 of the annual report of the Secretary of the Treasury for the fiscal year ended June 30, 1920, this statement, and I would like to get it cleared up:

The Liberty bond acts which authorized the Secretary of the Treasury to acquire foreign obligations also authorized him to exchange them into long-time obligations bearing a rate of interest not less than that borne by the demand instruments.

That, I think, is an incorrect statement, but let it go.

The acts provide that the former shall be in such form and terms as the Secretary of the Treasury may prescribe. In the early autumn of 1919, the Treasury informed the treasuries of the European Governments to which it had made advances that it was prepared, in case they so desired, to discuss with them the exchange of the demand notes for long-time obligations, and in that connection the deferring of interest collection during the reconstruction period of two or three years from the spring of 1919. Public announcement of the position of the Treasury was made on September 26, 1919. The considerations which moved the Treasury with regard to deferring the collection of interest were set forth in the following letter from the Secretary of the Treasury to the chairman of the Committee on Ways and Means of the House of Representatives:

WASHINGTON, December 18, 1919.

MY DEAR CONGRESSMAN: On October 9 last I sent you a copy of a public statement made by me on the 26th of September relative to the obligations of foreign Governments held by the United States Government, and also a copy of a letter written by me on October 9 to Senator Penrose in reply to a letter from him requesting information concerning the extension of the interest on such loans. In that statement and in my letter to Senator Penrose I explained the policy which the Treasury proposed to adopt in respect to the funding of the demand obligations of foreign Governments now held by the United States into long-time obligations, and the funding during the reconstruction period of two or three years of the interest on such obligations. Notwithstanding my public announcement of September 26 and the controlling reasons

which prompted the Treasury to adopt this policy, it appears from statements which have been made lately in Congress and elsewhere that there still exists a misunderstanding in respect to this question. Some of the statements to the effect that it is the duty of our Government, notwithstanding the present grave derangement of foreign exchanges, to insist upon immediate payment of interest amounting to about \$475,000,000 a year, indicate a tendency to overlook certain aspects of the question and a failure to grasp the meaning of the present position of the finances of the world. While the Treasury favors such an arrangement, it does not favor the cancellation and, indeed, has no power to cancel any portion of the interest or principal. The collection in dollars of this interest under present circumstances would be no less disastrous to American interests than to the interest of our debtors.

The loans to foreign Governments were made, as provided by Congress in April, 1917, for the purpose of assisting them in the prosecution of the war. Our entry into the war made it necessary for this Government to call upon the American people for vast sums of money for its own war purposes. In order to obtain such funds it was necessary substantially to close out the natural markets to all other borrowings, but, at the same time, it became most important that our associates in the war should be able to obtain in greater amounts than theretofore the supplies which they required and which we alone could furnish.

Except for the purpose of meeting commitments for war purposes previously made with the knowledge of the Treasury, the Treasury has, since last April, substantially discontinued the establishment of credits in favor of foreign Governments. The program authorized by Congress for foreign loans was therefore substantially ended eight months ago.

At almost the same time the foreign Governments of their own accord, and with the hearty approval of the Treasury, ceased the "pegging" of their exchanges.

These necessary steps by the United States Treasury and the treasuries of our associates, in the endeavor to reduce governmental financial activity and to return trade and finance to normal channels, have been reflected in the great drop which has taken place in the foreign exchanges.

With the ending of the war and of the program of our loans to foreign Governments, it was considered appropriate, in accordance with the authority conferred by the Liberty bond acts, to take up with those Governments the funding of the demand obligations now held by the United States into long-time obligations; and in view of the fact that, as indicated by the state of the foreign exchanges, the reconstruction of Europe has not proceeded to a point where Europe can even yet pay by exports for its necessary food, it was considered by the Treasury most expedient that as a part of the general funding arrangement provision should be made for deferring and spreading over a later period the payment of interest which would accrue during the next two or three years.

At the time of writing exchanges of the principal allies are quoted as follows:

Sterling, 3.86, or at a discount of 20.7 per cent.

Francs, 10.23, or at a discount of 49.4 per cent.

Lire, 12.75, or at a discount of 59.4 per cent.

Belgian francs, 9.97, or at a discount of 48 per cent.

Under these circumstances an impenetrable barrier exists which makes it impracticable for those Governments to pay in dollars the amount of interest due from them to the United States. This involves no question as to the solvency or financial responsibility of those Governments, nor a failure to raise funds by loans and taxes from their people and a corresponding burdening of our people, but results from the condition of the foreign exchange market. If the Governments of the Allies were to raise immediately by taxes and loans the whole of their debt to us, those taxes and loans would produce only sterling, francs, and lire, and those foreign currencies would not furnish one additional dollar of dollar exchange because conditions are not such as to permit those currencies now to be converted into dollars. The United States Treasury has no use at the present time for any considerable amounts of these currencies and could not afford to accumulate large idle foreign balances.

If the Treasury does not defer the collection and thus adds to the present difficulties in the financial and economic rehabilitation of the world by demanding an immediate cash payment of interest before the industry and trade of Europe has an opportunity to revive, we should not only make it impossible for Europe to continue needed purchases here and decrease their ultimate capacity to pay their debt to us, but should hinder rather than help the reconstruction which the world should hasten. A nation can liquidate its foreign debt only by the accumulation of foreign credit, which may be accomplished through an excess trade balance, invisible exchange items, the creation of credits by loans, or by the export of gold. Until our associates in the war, whose manufacture and trade suffered so much more than ours, have had an oppor-

tunity to resume normal, industrial, and commercial activities, they have not the exports with which to pay the interest due on our obligations and could make such payments only by the shipment of gold or by obtaining dollar loans in the United States. The loans which the Allied Governments have so far been able to place in our markets have not been sufficient to correct the situation. I can not believe that anyone would consider it equitable or wise, in the present circumstances, for us to require payment in gold, of which we already have enough, when the payment of one year's interest alone would exhaust about 50 per cent of the gold reserves of our debtors. While I fully realize the desirability of collecting this interest and of decreasing at once by a corresponding amount the taxes which we must collect, I should be most reluctant, without specific instructions from Congress to the contrary, to demand the immediate payment of interest which would not only seriously retard the economic restoration of those countries without which they will be unable to pay the interest and principal of their debt to us, but which would also destroy their power to make needed purchases in our markets.

My advisers are firmly of the opinion that in connection with and as a part of the general funding of the demand obligations into time obligations I am duly authorized under the Liberty loan acts to spread over subsequent years the interest which would accrue during the reconstruction period of, say, two or three years, and to include such amounts in the time obligations. If, however, the Ways and Means Committee of the House, which shared with the Secretary of the Treasury the initial responsibility for the Liberty loan acts, should question my power so as to act, I shall be pleased to have you so inform me at once, in order that I may lay before your committee a proposal for further enabling legislation.

Cordially yours,

CARTER GLASS.

HON. JOSEPH W. FORDNEY,
House of Representatives.

Following that is this comment, which appears on page 61 of the Annual Report of the Secretary of the Treasury:

The Committee on Ways and Means replied that there was in its opinion no legislative bar to the procedure proposed. Negotiations looking to the exchange and, in that connection, the deferring of interest collections were undertaken in Washington. They were continued in Europe in the fall of 1919 and the spring of 1920 by Albert Rathbone, then Assistant Secretary of the Treasury, and will be concluded in Washington. I trust that they will be completed in the near future.

In that connection I call attention to the reply of Mr. Fordney.

Senator WATSON. When was this, Senator?

Senator REED. The Secretary's letter, which I have just read, is dated December 18, 1919. I call attention to a copy which I have been furnished, and which I think is authentic, of Mr. Fordney's reply, dated January, 1920.

HON. CARTER GLASS,
Secretary of the Treasury, Washington, D. C.

DEAR MR. SECRETARY: With reference to your letter of December 18, 1919, in regard to the collection of interest on foreign loans, the question of the authority of the Secretary to grant extensions for the time of such interest payment was under discussion this morning at a meeting of the Committee on Ways and Means. Every expression of opinion seemed to indicate that at the time of the enactment of the Liberty loan acts no thought was given to the possibility of suspension of interest payments, and that there was no intention on the part of Congress to grant or imply such authority to the Secretary. Therefore, as chairman of the committee, I have the honor to request you and your legal advisers to appear before the committee to furnish additional information. It is advisable that the hearing be arranged at an early date, and I suggest Thursday or Friday morning of this week, should either of those dates meet your convenience. I further request that action by the Secretary or his agents looking to the suspension or extension of interest payment of foreign obligations be deferred until the question of the Secretary's authority so to act has been determined.

Awaiting your reply, I am,

Cordially, yours,

J. W. FORDNEY.

Senator LA FOLLETTE. I beg your pardon, Senator; what is the date of that letter?

Senator REED. January 19, 1920.

Senator LA FOLLETTE. The first question I asked in this investigation was directed to Secretary Mellon, and was a request for the production of that very letter. In response to my question Mr. Wadsworth intervened and said, "I think this is it," handing a letter to Secretary Mellon, and Secretary Mellon said, "Yes," and another letter was put into the record here. I am very glad, indeed, to have that letter. It was the very point at which I wanted to start my inquiry.

Senator REED. I came by this copy in this way: I asked my secretary to inquire from members of the committee of the House what had transpired, and he brought me this copy of the letter. I do not want to state it positively, but my understanding is that he got it from Mr. Fordney or Mr. Kitchin. I can find out exactly where he got it.

Senator LA FOLLETTE. Well, if it is the letter, that is the important thing.

Senator REED. I want now to ask the question, Was the interest on these loans extended by any order of the Treasury, to your knowledge?

Secretary MELLON. Is not that stated in that report of Secretary Glass?

Senator REED. He states that the matter is to be taken up, but I do not think he says that it has been accomplished. He says that he got the authority from the Ways and Means Committee, which is a singular authority, and then he says that the negotiations have been taken up, and "I trust that they will be completed in the near future." Now, I want to know if they were completed and, if so, on what terms and conditions and what papers were passed with reference to them.

Assistant Secretary WADSWORTH. They were not completed.

Senator REED. They never were completed?

Assistant Secretary WADSWORTH. The negotiations, you mean, with the foreign countries?

Senator REED. Yes.

Assistant Secretary WADSWORTH. No.

Senator REED. So there never has been an extension up to this date or any agreement to postpone?

Senator LA FOLLETTE. Did you say "No" to that question, Mr. Wadsworth?

Assistant Secretary WADSWORTH. There never has been any formal extension.

Senator LA FOLLETTE. Well, formal or informal.

Assistant Secretary WADSWORTH. I understand that there has been no formal extension.

Senator LA FOLLETTE. Well, do you understand that there has been an informal extension?

Assistant Secretary WADSWORTH. The interest has not been paid.

Senator REED. Has there been some understanding arrived at?

Assistant Secretary WADSWORTH. The understanding as outlined in that letter. It was followed by a letter from Mr. Fordney, under date of April 2, addressed to Mr. Houston, the then Secretary of the Treasury, which was read here at the first hearing on this bill. May I read that letter?

Senator REED. Yes.

Assistant Secretary WADSWORTH. It says;

Referring further to my letter to your predecessor under date of January 19, 1920—

That is the letter you have just read, I presume.

Senator REED. Yes.

Assistant Secretary WADSWORTH (continuing):

wherein I undertook to express the opinion of the members of the Ways and Means Committee that, at the time of the enactment of the Liberty loan acts, no thought was given to the possibility of the suspension of interest payments on foreign loans and that there was no intent on the part of Congress to grant or imply such authority to the Secretary, I am instructed by the committee to state that upon further investigation a majority of the committee are of the opinion that there is no legislative bar to your proceeding with the extension plan last submitted by you to the committee, although such contingency was not in the mind of the committee at the time the legislation authorizing foreign loans was framed.

With reference to the policy of the plan, the committee feels that in such matters as these, where no legislation is pending, it is not in accordance with the best practice that standing committees of Congress should express an opinion or advise executive departments as to the course to be pursued.

In the light of the foregoing, therefore, I will be pleased to have you consider my letter of January 19, 1920, as withdrawn.

Very truly, yours,

J. W. FORDNEY, *Chairman.*

Senator REED. That is, they refused to express an opinion?

Assistant Secretary WADSWORTH. They withdrew that letter of January 19, 1920.

Senator REED. What I want to get at is this: Is there any understanding, express or implied, which in any way obligates us to extend this interest, or that would embarrass us in any way in insisting upon the payment of the interest?

Assistant Secretary WADSWORTH. I would like the Secretary to answer that question.

Secretary MELLON. I think there was an understanding in these negotiations, so far as they proceeded. While they were not concluded, there was that understanding that for two or three years this interest would not be insisted upon, but would be deferred and extended.

Senator REED. Is that, Mr. Mellon, in correspondence in any form?

Secretary MELLON. You will notice in the annual report of Secretary Houston he makes that statement, that that was the understanding.

Senator REED. But outside of the report of the Secretary, were there any papers, any correspondence, anything passing between these Governments or their representatives that in any way obligated this Government, morally or otherwise, to extend these loans?

Secretary MELLON. I believe in the negotiations that were carried on they virtually conceded that the interest to that extent could not be insisted on.

Senator REED. Were those negotiations in writing or by word of mouth?

Secretary MELLON. The negotiations were carried on orally, but there were notes made of the conversations from time to time.

Senator REED. Where are those notes?

Secretary MELLON. I believe Mr. Wadsworth can answer that question.

Assistant Secretary WADSWORTH. I think they are among the papers there.

The CHAIRMAN. What papers, Mr. Wadsworth?

Assistant Secretary WADSWORTH. The papers that were sent to the Judiciary Committee. May I read this statement, Mr. Chairman?

Senator REED. Let us stick to this point.

Senator LA FOLLETTE. These are only copies, as I understand it. Have you the originals? You say you think they are here?

Assistant Secretary WADSWORTH. I am not familiar with what is in those cases. They were sent up here as being a complete response—

Senator LA FOLLETTE. You know that there was a memorandum made of those conversations, do you not?

Assistant Secretary WADSWORTH. Excuse me; I did not hear that question.

Senator LA FOLLETTE. You know that there was a memorandum made of the conversations with regard to the extension of this interest payment, do you not?

Assistant Secretary WADSWORTH. Yes; I think there were letters exchanged during the negotiations for the refunding.

Senator LA FOLLETTE. But the Secretary has just stated that those negotiations, as he understands it, were oral, but that they were afterwards reduced to a memorandum. You did not hear that statement from him, did you? He just made it a moment ago.

Assistant Secretary WADSWORTH. There were memoranda made of the conversations as they went along.

Senator LA FOLLETTE. Where are those memoranda?

Assistant Secretary WADSWORTH. They are all in those boxes?

Senator LA FOLLETTE. The original memoranda or copies?

Assistant Secretary WADSWORTH. Copies.

Senator LA FOLLETTE. Then, you have the originals?

Assistant Secretary WADSWORTH. Presumably we have.

Senator LA FOLLETTE. Will you produce them and save us the trouble of wading through four chests here and spending days hunting for that data? Why can not you produce the data right here upon the call of this committee at once?

Assistant Secretary WADSWORTH. We can produce it right from those files.

Senator LA FOLLETTE. It was a very definite arrangement, was it not? It provided for the extension of interest payments up to April, 1922, did it not?

Assistant Secretary WADSWORTH. As I understand it, it never bound anybody; it was a negotiation which went on with the distinct understanding that neither side was in any way bound by it.

Senator LA FOLLETTE. The Secretary has just testified here that he thinks there was such an understanding as ought to be binding. "Legally or morally" was the way the Senator from Missouri presented the question. You do not agree with that. But if you will produce the memoranda here which cover those conversations, you will give this committee an opportunity to form its own opinion on the matter.

The CHAIRMAN. Mr. Heffelfinger, can you open that chest and get the memoranda now?

Mr. HEFFELFINGER. I think so.

Senator REED. I do not understand—and I want to say this in all kindness—why this committee has got to proceed with a corkscrew in inquiries of this kind. I do not understand why a straightforward statement can not be made and the papers produced. I have examined a good many witnesses in 35 or 40 years of law practice, and I do not understand why this is not stated to us just as it is.

Senator CURTIS. You realize, do you not, that Mr. Wadsworth was not in the Treasury Department at the time? He has been there only a few months. He has not had time to go over these papers.

Senator REED. I should like to say that I have the papers here, and if you will give me sufficient time I can find them.

The CHAIRMAN. Well, bring them here.

Senator WALSH. How long have you been in office, Mr. Wadsworth?

Assistant Secretary WADSWORTH. Since March. May I make a statement, Mr. Chairman?

The CHAIRMAN. Permit Mr. Wadsworth to have an opportunity to make a statement.

Assistant Secretary WADSWORTH. I think at our first hearings I described these negotiations that went on between Mr. Rathbone and Mr. Blackett in Europe. Those negotiations were partly by letter and partly verbal. Out of them grew the suggested arrangement as outlined in that letter that was just read, which appears in the Secretary's annual report. The letters and the memoranda which grew out of those conferences have all been sent up here and are now there in proper form and in exactly the sequence and the way in which they were filed in the Treasury Department, every single document.

Senator REED. Then, let us have them.

Assistant Secretary WADSWORTH. And they have been here now since last February, I think.

Senator REED. Let us have them now. Can you find them?

The CHAIRMAN. Let Mr. Heffelfinger produce any paper called for out of these chests.

Secretary MELLON. Senator Reed, while those are being produced, I would like to state that this report of Secretary Houston refers to this understanding that we spoke of. Mr. Wadsworth has that report.

Senator REED. All right. What is that page, Mr. Wadsworth, that you are going to read from?

Assistant Secretary WADSWORTH. As to the situation with regard to the interest?

Senator REED. Yes.

Assistant Secretary WADSWORTH. Page 58.

Senator REED. Well, that is the page I read from.

Assistant Secretary WADSWORTH. You have read that.

In the early autumn of 1919 the Treasury informed the treasuries of the European Governments to which it had made advances, that it was prepared, in case they so desired, to discuss with them the exchange of the demand notes for long-time obligations, and in that connection the deferring of interest collection during the reconstruction period of two or three years from the spring of 1919.

Now, that was done during these negotiations which Mr. Rathbone carried on in Paris.

Secretary MELLON. Which, you will observe, is a statement to those governments that their interest will be deferred. That is the understanding to which I referred.

Senator WATSON. Let me ask you this question, Mr. Secretary: Whatever Secretary Houston may have said or done or thought, and whatever Secretary Glass may have said or done or thought in connection with this proposition, do you consider yourself bound by those understandings to extend this interest payment period?

Secretary MELLON. When representation was made by the Secretary of the Treasury to the foreign Governments that they could regard that interest as being deferred, I consider that the Government of the United States is under obligation to defer it.

Senator WATSON. That is what I want to get at. Have you had any correspondence with any of the chancellors of European Governments with regard to that question?

Secretary MELLON. Only the letter to the British ambassador, which was brought here, giving him the status of the British claims.

Senator REED. Where is that letter?

Senator WATSON. May I proceed for a minute?

Senator REED. Well, let us get that letter.

Senator WALSH. And I suppose he wants to add also the conversation which was referred to yesterday.

Senator WATSON. What else beside this letter of which you spoke and this statement with regard to those understandings have you in the Treasury upon which to base your decision as to your future policy?

Secretary MELLON. What is that?

Senator WATSON. You say you have a letter here, to which you just now referred.

Secretary MELLON. That is a letter to the British ambassador, giving him a statement of the British indebtedness.

Senator WATSON. When was that letter written and by whom and to whom?

Secretary MELLON. Mr. Wadsworth has it there.

Senator REED. Let us have the letter read.

Assistant Secretary WADSWORTH. The letter was written on May 11, 1921, by the Secretary of the Treasury, Mr. Mellon, to the British ambassador.

The CHAIRMAN. Wait a moment. Senator Reed wants it read.

Senator REED. Yes.

The CHAIRMAN. Will you read the letter, Mr. Wadsworth, and let it be printed in the record?

Senator WATSON. Read it if it has in it any statement as to what your policy would be with reference to this extension of time. If it has nothing to do with that, there is no use in reading it.

Senator LA FOLLETTE. It bears upon this subject and I would like to have it produced.

The CHAIRMAN. Let it be read and printed in the record. I am in favor of disclosing the truth, but not in favor of prolixity or delay. I want to get the truth as rapidly as we can and expose it in all its nakedness.

Senator REED. That suits me.

The CHAIRMAN. There is no one that abhors autocratic secret methods relating to Government more than I do.

Senator REED. Unless it is I.

Secretary MELLON. On refreshing my memory as to the letter, I do not see anything referring to the question of deferring interest.

It is a letter giving to the British ambassador a statement of the claims, the conditions of the indebtedness up to this time, and referring to the negotiations which had been held.

Senator REED. That would be very illuminating on the whole question. Let us have the letter.

The CHAIRMAN. Read the letter, Mr. Wadsworth, please.

(Assistant Secretary Wadsworth thereupon read the letter of May 11, 1921, from the Secretary of the Treasury to the British ambassador which will be found printed in full as "Wadsworth Exhibit No. 2," at the end of to-day's hearing.)

Senator REED. Are those documents attached to that letter?

Assistant Secretary WADSWORTH. They are all attached.

Senator WATSON. There is nothing with regard to the extension of interest payment, Mr. Secretary?

Secretary MELLON. No.

Senator WATSON. Have you had any communication of any kind from any of the officials of any of the countries of Europe that owe us money with regard to the extension of interest payment?

Secretary MELLON. No.

Senator WATSON. Have you written any letters or had any sort of understanding with them verbally with regard to an extension of payment of interest?

Secretary MELLON. No.

Senator WATSON. A while ago you said that if these understandings had been had hitherto by previous Secretaries of the Treasury, or either of them, with regard to the extension of payment of interest you would be bound by those understandings. What evidence have you in your department of such understandings?

Secretary MELLON. There is a statement of the Secretary of the Treasury that such representations have been made to these Governments, and that they were advised that if they so desired this interest would be deferred.

Senator REED. On that—

Senator WATSON. Wait a minute. One at a time.

Senator REED. I want to get that statement clear.

Senator WATSON. That is what I want to do. You say that the Secretary of the Treasury said that statements had been made of that character. Who made those statements and what evidences are there in writing of those statements?

Secretary MELLON. I do not know, other than those memoranda of the negotiations.

Senator WATSON. You have not looked them up, then?

Secretary MELLON. No.

Senator WATSON. So that this statement made by the Secretary of the Treasury, Mr. Houston, that Mr. Wadsworth has read from is the only evidence of that kind that you have, is it.

Secretary MELLON. I would not be sure that there is not other evidence. I rather think there is.

Senator WATSON. Have you seen those memoranda, Mr. Wadsworth, to which Mr. Houston refers, the memoranda accompanying the conversations with regard to the extension of interest when these people met to discuss the matter.

Assistant Secretary WADSWORTH. They are right here. Here they are.

Senator WATSON. You have them here?

Assistant Secretary WADSWORTH. This is the result of their negotiations.

Senator WATSON. Attached to the letter?

Assistant Secretary WADSWORTH. Yes.

Senator WATSON. Then, what is Mr. Heffelfinger looking up in these boxes?

Senator LA FOLLETTE. This is only the correspondence, is it not?

Senator WATSON. This is the correspondence.

Senator LA FOLLETTE. But have you attached to the letter of Secretary Mellon as one of the matters referred to the memorandum made of the verbal conversation?

Assistant Secretary WADSWORTH. No; those are all in these files.

Senator LA FOLLETTE. You have seen that memorandum, have you not, and you have the original of it in your possession, have you not?

Assistant Secretary WADSWORTH. As these negotiations went on—

Senator LA FOLLETTE. Just answer that question.

Assistant Secretary WADSWORTH. I am not quite sure as to which memorandum you refer.

Senator LA FOLLETTE. I mean the memorandum that embodied the conversations that had been had.

Assistant Secretary WADSWORTH. I was going to say that as these conversations went on Mr. Rathbone wrote and telegraphed freely to the Treasury here, and all those letters and all those cablegrams which constitute the memoranda of those conversations are here now in these boxes.

Senator REED. But there is attached to a letter which you have just read—

Senator LA FOLLETTE. Before he leaves that—if you will pardon me, Senator Reed—was there embodied in that—for convenience I will call it a commitment—made by Secretary Houston—was there embodied a plan for taking up the accrued interest, a definite plan, something like this: One-thirtieth the first year, one-thirtieth the second year, one-fifteenth the third year—

Assistant Secretary WADSWORTH. That is all as far as England is concerned. It is in these memoranda here. This letter is based upon the general plan which these memoranda set forth.

Senator LA FOLLETTE. Just to conclude my question—one-fifteenth the fourth year, and following that eight yearly installments of one-twelfth, these fractions making the complete third? Is there data to show that there was that sort of an understanding arrived at?

Assistant Secretary WADSWORTH. I think it is in these memoranda. I am not familiar enough with the figures. I do not know what those figures are that you are reading from, but these memoranda set forth the plan as outlined in this letter to Mr. Fordney for paying up the back interest.

Senator LA FOLLETTE. Was there any discussion touching the payment of the deferred interest?

Assistant Secretary WADSWORTH. I do not recall any; no.

Senator LA FOLLETTE. The suspended interest at this time amounts to over \$40,000,000, does it not?

Assistant Secretary WADSWORTH. I could not say offhand. I have just read the amount of the suspended interest.

Senator REED. There is attached to the letter which you read here these various documents referred to in the letter, and they form the basis on which the letter is written. Will you let us have those documents?

Assistant Secretary WADSWORTH. I am filing them with the committee now.

Senator REED. May I see them? I want the privilege of looking over them a little bit, but before I do that I want to ask the Secretary of the Treasury one question to clear up a matter.

The CHAIRMAN. May I interrupt you a moment? Let the papers be produced and identified in the stenographic notes, so that hereafter we may not engage in any altercation as to the identity of them. Let Mr. Wadsworth state what papers he is handing to Senator Reed at his request.

Senator REED. I will identify them. The table showing the deferred interest is marked "Wadsworth Exhibit No. 1." This document also shows the interest paid by the nations. "Wadsworth Exhibit No. 2" is a letter dated May 11, 1921, from the Secretary of the Treasury to the British ambassador, which was read by the witness. The documents attached to the foregoing letter are identified as follows: Draft of May 10, "Wadsworth Exhibit No. 3"; draft of May 22, "Wadsworth Exhibit No. 4"; draft of April 30, "Wadsworth Exhibit No. 5"; draft of May 13, "Wadsworth Exhibit No. 6"; draft of May 10 (Schedule No. 1), "Wadsworth Exhibit No. 7"; and draft of May 18, "Wadsworth Exhibit No. 8."

(The exhibits above referred to will all be found printed in full at the close of to-day's hearing.)

The CHAIRMAN. Have they all been produced now?

Senator REED. I think that is all Senator La Follette called for.

Senator LA FOLLETTE. No; it is not. That third request was modified by a suggestion from Senator Walsh, which was added as No. 6, "Summary of personal conversation and negotiations had by the Secretary of the Treasury with representatives of foreign Governments."

Senator CURTIS. That has not been produced has it?

Senator LA FOLLETTE. Is that produced here?

Assistant Secretary WADSWORTH. Those memoranda of personal conversations which were held are all in the form of cables or letters which are on file in these boxes.

Senator LA FOLLETTE. But they are not produced by you here in connection with these papers which you have before you?

Assistant Secretary WADSWORTH. No; not produced. They are there now.

Senator REED. And when they are produced from the files they will be identified by the stenographer as exhibits with appropriate numbers.

Senator LA FOLLETTE. Now, the fourth and fifth requests.

Senator REED. The fourth request was for statements of all claims of the United States against foreign Governments. Have you that?

Assistant Secretary WADSWORTH. I have not. I did not quite know how to go about getting that information except by sending out a general letter of inquiry to all the departments dealing with foreign Governments and asking them what claims they had.

Senator CURTIS. I think Senator La Follette meant just those established claims in your department.

Senator LA FOLLETTE. No; I want to ascertain the indebtedness of every character of these Governments to this Government, and the interest that the Senate manifested day before yesterday in that matter in connection with the payment of the \$32,000,000 from the War Department will show that there is some basis for that information in the minds of Senators.

Senator REED. Senator La Follette's fifth request was for a statement showing for each debtor nation the amount of total indebtedness and names of creditor nations with amount of each; the annual expenditures of each debtor nation; and the annual revenues of each debtor nation.

Have you made that tabulation?

Assistant Secretary WADSWORTH. I have endeavored to get in a short time what I could. I have here statements as to the national debts of certain nations and the budgets of certain nations. I think the last one is for the years 1919 or 1919-20. We will endeavor to get later information.

Senator REED. These are the documents that you produced?

Assistant Secretary WADSWORTH. Those are the documents.

Senator REED. Let them be marked with appropriate exhibit numbers.

(The statement of "National debts of foreign countries" was marked "Wadsworth Exhibit No. 9" and the "Statement of budget statements for 1919 or 1919-20 (or as stated) of Foreign Countries" was marked "Wadsworth Exhibit No. 10", both of which will be found printed in full at the end of to-day's hearing.)

Senator REED. Now, one matter that you have not produced in any form is that in response to request No. 4, "Statements of all claims of United States against foreign governments." Will you not endeavor to get that information and furnish it to the committee?

Assistant Secretary WADSWORTH. I will.

The CHAIRMAN. Has everything else been produced that was requested to be produced?

Senator LA FOLLETTE. There are some papers being searched for here which if found would complete it.

The CHAIRMAN. If they are found they will cover everything except the claims of this Government against certain foreign nations?

Senator REED. I think we are approaching the getting of these documents now, but before we pass from it I want to give the Secretary of the Treasury an opportunity to clear up one matter. Mr. Secretary, I thought you stated that there was an agreement to postpone the payment of this interest set out in the report of the Secretary of the Treasury of 1920. I presume the Secretary refers to this language:

In the early autumn of 1919, the Treasury informed the treasuries of the European Governments to which it had made advances that it was prepared, in case they so desired, to discuss with them the exchange of the demand notes for long-time obligations, and in that connection the deferring of interest collection during the reconstruction periods of two or three years from the spring of 1919.

That refers merely to a discussion of the deferring of the interest in connection with taking the long-time obligations. A little later on it is stated:

They (the conversations) were continued in Europe in the fall of 1919 and the spring of 1920 by Albert Rathbone, then Assistant Secretary of the Treasury, and will be concluded in Washington. I trust that they will be concluded in the near future.

I call attention to that language because clearly it shows that the negotiations had not been concluded, nor an agreement made. Was that the matter contained in the report that you referred to in your previous answer?

Secretary MELLON. That is the report, and in addition to that you understand these conversations that were carried on recognized that understanding that the interest could be deferred by these governments. They took that for granted, as I understand it.

Senator SMOOR. Let me call your attention to a statement made by Senator Glass on the floor last week, Senator Reed, when the question arose as to whether the Secretary of the Treasury had the authority to extend the interest. This is what Senator Glass answered:

Mr. President, I do not take the view which has been expressed by the Senator from Utah (Mr. Smoot), and concurred in by the Senator from Arkansas (Mr. Robinson) as to the authority of the Secretary of the Treasury under existing law. It is my view that the Secretary of the Treasury, under existing law, has full authority to fund the indebtedness of foreign nations to this Government, including accrued interest to date. So far as I know, it has never before been questioned that the Secretary of the Treasury has full power to fund the principal of foreign obligations to this Government. The only question that arose in the discussion of the matter was as to the accrued interest. On the 18th day of December, 1919, when I happened to be Secretary of the Treasury, I addressed a letter to the chairman of the Ways and Means Committee of the House of Representatives, a copy of which I transmitted to the chairman of the Finance Committee of the Senate. The concluding paragraph of that letter reads as follows:

"My advisers"—

That is, the legal advisers of the Secretary of the Treasury—

"are firmly of the opinion that in connection with and as a part of a general funding of the demand obligations into time obligations I am duly authorized under the Liberty loan acts to spread over subsequent years the interest which would accrue during the reconstruction period of, say, two or three years, and to include such amounts in the time obligations. If, however, the Ways and Means Committee of the House, which shared with the Secretary of the Treasury the initial responsibility for the Liberty loan acts, should question my power so to act, I shall be pleased to have you so inform me at once, in order that I may lay before your committee a proposal for further enabling legislation.

"Cordially, yours,

"CARTER GLASS.

"HON. JOSEPH W. FORDNEY,
"House of Representatives."

The report of the Secretary of the Treasury who succeeded me goes on to say—which I know to be a fact:

"The Committee on Ways and Means replied that there was in its opinion no legislative bar to the procedure proposed."

And, as a matter of fact, as will appear from the report of Secretary Houston:

"Negotiations looking to the exchange and, in that connection, the deferring of interest collection were undertaken in Washington. They were continued in Europe in the fall of 1919 and the spring of 1920 by Albert Rathbone, then Assistant Secretary of the Treasury, and will be concluded in Washington."

As a matter of fact, I think it may be determined that the present Secretary of the Treasury took no different view from that as to the major loans and accrued interest.

(The exhibits previously referred to are here printed in full, as follows:)

WADSWORTH EXHIBIT No 1.

Statement showing obligations of foreign Governments and so-called governments held by the United States, interest accrued and unpaid thereon, up to and including the last interest period, and interest heretofore paid on such obligations.

Country.	Total obligations.	Interest accrued and unpaid up to and including last interest period.	Total debt to United States.	Interest heretofore paid.
Armenia.....	\$11,959,917.49	\$1,009,868.67	\$12,969,786.16	.....
Austria.....	24,055,708.92	721,671.27	24,777,380.19	.....
Belgium.....	375,280,147.37	34,007,409.62	409,287,557.99	\$13,014,918.42
Cuba.....	9,025,500.00	.....	9,025,500.00	1,282,369.54
Czechoslovakia.....	91,179,528.72	8,125,165.24	99,304,693.96	304,178.09
Estonia.....	13,999,145.60	1,389,668.37	15,388,813.97	.....
Finland.....	8,281,926.17	598,339.79	8,880,265.96	.....
France.....	3,350,762,938.19	284,148,863.64	3,634,911,801.83	139,570,376.13
Great Britain.....	4,166,318,358.44	407,303,283.93	4,573,621,642.37	245,557,185.50
Greece.....	15,000,000.00	.....	15,000,000.00	784,153.34
Hungary.....	1,685,835.61	50,575.07	1,736,410.68	.....
Italy.....	1,648,034,050.90	161,078,880.80	1,809,112,931.70	57,598,852.62
Latvia.....	5,132,287.14	386,962.52	5,519,249.66	126,266.19
Liberia.....	26,000.00	1,568.85	27,568.85	861.10
Lithuania.....	4,981,628.03	498,162.80	5,479,790.83	.....
Poland.....	135,661,680.58	9,837,443.36	145,499,103.94	1,290,620.78
Rumania.....	36,128,494.94	3,477,534.09	39,606,029.03	263,313.74
Russia.....	192,601,297.37	26,120,560.18	218,721,857.55	4,842,534.33
Serbia.....	51,153,160.21	4,778,797.79	55,931,958.00	638,059.14
	10,141,267,585.68	943,534,755.99	11,084,802,341.67	465,271,688.92

WADSWORTH EXHIBIT No. 2.

MAY 11, 1921.

MY DEAR MR. AMBASSADOR: In accordance with our conversation on May 2, on the subject of exchange of obligations of the British Government acquired and held by the Secretary of the Treasury under authority of the Liberty loan acts for long-time obligations, I have the honor to inclose herewith copies of various memoranda prepared by Mr. Rathbone in the spring of 1920 in connection with his negotiations with Mr. Blackett in this matter, as follows:

1. Copy of draft of May 10 of memorandum entitled "Extension of interest payments and exchange of \$4,090,818,358.44, principal amount, of obligations of the British Government acquired and held by the Secretary of the Treasury under authority of the Liberty loan acts of the United States." Notations on the face of the copy in the Treasury files of the draft indicate that a copy thereof was handed to Mr. Blackett on the same date, and that it was the last draft he received of this memorandum.

2. Copy of draft of May 22 of the above memorandum. Notations on the face of the copy in the Treasury files of this draft indicate that it is the latest draft; that Mr. Blackett did not receive a copy thereof, but that it embodies points discussed with him by Mr. Rathbone. This draft apparently developed out of conferences between Mr. Rathbone and Mr. Blackett based on the draft of May 10.

3. Copy of draft of April 30 of memorandum regarding treatment of certain obligations of the Governments of France, Italy, Belgium, Rumania, Serbia, and, Czechoslovakia held by the American and

British Treasuries. This appears to be the latest draft of this memorandum, but from notations on the face of the copy in the Treasury files of this draft, it appears that pages 4, 5, and 6 were redrafted on May 3, and that a copy of the April 30 draft with these pages so redrafted was handed to Mr. Blackett on May 5.

4. Copy of draft of May 13 of instrument entitled "Schedule 1. The Government of the United Kingdom of Great Britain and Ireland 5 per cent convertible gold obligation bearing date April 15, 1919, maturing June 15, 1947. Principal amount, \$577,500,000. Series A." Also copy of draft of May 13 of exhibits referred to in such instrument. Notations on the face of the copy in the Treasury files of these drafts and of the one described in the next paragraph below indicate that a copy thereof was handed to Mr. Blackett and that it was the last draft he received of this instrument and of the exhibits thereto.

5. Copy of draft of May 13 of above instrument as thereafter revised. A notation on the face of the copy in the Treasury files of this revised draft indicates that the changes therein from the drafts described in the preceding paragraph were made by Mr. Rathbone after discussion with Mr. Blackett of such modifications, but that the latter did not receive a copy of the draft thus altered.

6. Copy of draft of May 10 entitled "Schedule 1. The Government of the United Kingdom of Great Britain and Ireland and 5 per cent convertible gold obligation bearing date April 15, 1919, principal amount \$1,467,500,000, Series E." A notation on the face of the copy in the Treasury files of the draft of May 10 of this instrument indicates that a copy thereof was handed to Mr. Blackett on the same date. On the face of such copy in the Treasury files appear certain pencil alterations made by Mr. Rathbone at some time after May 10.

7. Copy of draft of May 13 of exhibits mentioned in the instrument described in the preceding paragraph. A notation on the face of the copy in the Treasury files of this draft indicates that a copy thereof was handed to Mr. Blackett on the same date.

8. Copy of the draft described in paragraph numbered 6 above, as revised by Mr. Rathbone in the manner stated in such paragraphs. It is not apparent whether Mr. Blackett received a copy of this draft so revised, or whether the changes therein were discussed with him by Mr. Rathbone.

I also inclose for the purpose of completing your files copy of draft of May 18 of memorandum entitled "Regarding claims by British Treasury for reimbursement in dollars for expenditures on behalf of France, Italy, Belgium, and C. R. B." A notation on the face of the copy in the Treasury files of this draft indicates that it is the latest draft, and that a copy thereof was handed to Mr. Blackett on May 18. I understand that the claims of the British Treasury for reimbursement in dollars referred to in this memorandum have since been settled, and it would accordingly seem that this memorandum is no longer material in connection with the negotiations now to be resumed. The inclosed copy of draft thereof is being sent to you, however, because the memorandum is referred to in the memorandum described in paragraph numbered 3 above, and in order that your files on this subject may be complete.

The discussions between Mr. Rathbone and Mr. Blackett, who had been associated, on behalf of their respective Governments in matters having to do with the financing of the Allies, for several years, were most informal, and the drafts of memoranda and of forms of proposed obligations were merely a means of putting on paper, as a convenient basis of discussion, the suggestions of both. The papers can not be said to have been in any sense the drafts or proposals of either, and the fact that any provision is contained in them does not indicate that either was prepared to agree to it. Although I understand Mr. Rathbone and Mr. Blackett were close to an agreement on the whole matter, the discussions were suspended before an agreement was reached. Therefore, the memoranda relating to these conferences which I am now bringing to your attention are merely for your information toward facilitating further negotiations in the matter.

When, after you have had an opportunity to examine the inclosures, you should desire further discussion on this subject, I venture to assume that you will communicate such desire.

I am, my dear Mr. Ambassador,

Very truly, yours,

A. W. MELLON.

The Right Honorable Sir AUCKLAND GEDDES,
Ambassador Extraordinary and Plenipotentiary,
The British Embassy, Washington, D. C.

WADSWORTH EXHIBIT No. 3.

(Draft of May 10.)

PART 2.

Extension of interest payments and exchange of \$4,090,818,358.44 principal amount of obligations of the British Government acquired and held by the Secretary of the Treasury under authority of the Liberty Loans Acts of the United States.

I.

The aggregate of British Government obligations acquired by the Secretary of the Treasury.....	\$4, 277, 000, 000. 00
Of which there has been repaid.....	64, 164, 007. 99
Balance outstanding.....	4, 212, 835, 992. 01
Of the above principal sum there was advanced to Great Britain for Pittman silver purchases, net amount.....	122, 017, 633. 57
Leaving a balance of obligations in the principal sum of.....	4, 090, 818, 358. 44

The foregoing obligations in the principal amount of \$4,090,818,358.44 are those dealt with in this Part 2.

II.

Of said obligations of.....	\$4, 090, 818, 358. 44
Net amount acquired under the authority of the first Liberty Bond Act.....	\$1, 155, 000, 000. 00
Net amount acquired under the authority of Liberty Bond Acts subsequent to First Liberty Bond Act.....	2, 935, 818, 358. 44 4, 090, 818, 358. 44

The interest on all those of the above-mentioned obligations acquired by the Secretary of the Treasury prior to May 15, 1919, has been paid up to but not subsequent to the following dates, one obli-

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS. 111

tion for \$30,000,000 is dated May 15, 1919, and carries interest from that date:

	Draft of May 12.	
Up to April 15, 1919, as to...	\$2, 651, 789, 419. 86	
Up to May 15, 1919, as to...	1, 412, 028, 938. 58	
Three obligations were		\$4, 063, 818, 358. 44
given subsequent to		
May 15, 1919, and no		
interest has been paid		
thereon:		
May 22, 1919.....	10, 000, 000. 00	
May 29, 1919.....	10, 000, 000. 00	
June 25, 1919.....	7, 000, 000. 00	
		27, 000, 000. 00 \$4, 090, 818, 358. 44

The following table shows the dates to which interest has been paid in respect to the different classes of obligations given on or before May 15, 1919:

	April 15, 1919.	May 15, 1919.	Total.
1st Liberty Bond Act.....	\$1, 155, 000, 000. 00		\$1, 155, 000, 000. 00
Subsequent Liberty Bond			
Acts.....	1, 496, 789, 419. 86	\$1, 412, 028, 938. 58	2, 908, 818, 358. 44
	2, 651, 789, 419. 86	1, 412, 028, 938. 58	4, 063, 818, 358. 44

In order to bring to a round figure the principal of the obligations of the British Government, the exchange of which is contemplated, the British treasury will forthwith pay the principal of demand obligations held by the United States Treasury in the amount of \$818,358.44, together with the interest accrued thereon at the rate of 5 per cent to the date of payment as to \$789,419.86 from April 15, 1919, and as to \$28,928.58 from May 15, 1919, thus reducing the principal amount of such unpaid obligations to \$4,090,000,000.

III.

The obligations to be given in exchange for the aforesaid demand obligations aggregating \$4,090,000,000 in principal amount are to be 12 in number, and are to be designated as Series A, B, C, D, E, F, G, H, I, J, K, and L. Attached hereto as Schedules I and II, respectively, are the forms of obligations Series A and Series E. Except as otherwise indicated obligations Series B, C, and D are to be in the form of obligations Series A, and obligation Series F, G, H, I, J, K, and L are to be in the form of obligation Series E.

(1) The obligations of Series A, B, C, and D are to aggregate in principal amount the sum of \$1,155,000,000, viz, the amount of such obligations acquired by the United States under the first Liberty loan act, and are to be dated April 15, 1919, and are to mature June 15, 1947.

(a) The obligation Series A in the principal amount of \$577,500,000 is to have as interest payment dates April 15 and October 15.

(b) The obligation Series B in the principal amount of \$346,500,000 is to have as interest payment dates May 15 and November 15.

(c) The obligation Series C in the principal amount of \$115,500,000 is to have as interest payment dates January 15 and July 15.

(d) The obligation Series D in the principal amount of \$115,500,000 is to have as interest payment dates February 15 and August 15.

(2) The obligation of Series E, F, G, H, and I are to aggregate in principal amount \$2,908,000,000 and are to mature October 15, 1938.

(a) The obligation Series E, in the principal amount of \$1,467,500,000 is to be dated April 15, 1919, and the dates fixed for interest payments and sinking fund payments are to be April 15 and October 15.

(b) The obligation Series F in the principal amount of \$28,500,000 is to be dated April 15, 1919, and the dates fixed for interest payments and for sinking fund payments are to be May 15 and November 15.

(c) The obligation Series G in the principal amount of \$852,000,000 is to be dated May 15, 1919, and the dates fixed for interest payments and for sinking fund payments are to be May 15 and November 15.

(d) The obligation Series H in the principal amount of \$293,500,000 is to be dated May 15, 1919, and the dates fixed for interest payments and for sinking fund payments are to be January 15 and July 15.

(e) The obligation Series I in the principal amount of \$266,500,000 is to be dated May 15, 1919, and the dates fixed for interest payments and for sinking fund payments are to be February 15 and August 15.

(3) The obligations of Series J, K, and L are to aggregate in principal amount the sum of \$27,000,000, are to have as dates for interest payments and sinking fund payments February 15 and August 15, and are to mature October 15, 1938.

(a) The obligation Series J in the principal amount of \$10,000,000 is to be dated May 22, 1919.

(b) The obligation Series K in the principal amount of \$10,000,000 is to be dated May 29, 1919.

(c) The obligation Series L in the principal amount of \$7,000,000 is to be dated June 25, 1919.

IV.

The following table indicates generally the provisions of the attached form of obligation, Series A, regarding the dates and initial amount of interest payments and dates and amounts of sinking fund payments. Similar provisions in this respect are also made in the forms attached of obligations Series B, C, and D, except the deferred interest to and inclusive of the first respective interest payment date in 1922 will aggregate in the case of obligation Series B something more than 15 per cent of the face amount of such obligation, and accordingly the last payment of deferred interest as fixed for May 15, 1934, will be something over three-fourths of 1 per cent; and in the case of obligations Series C and D something less than 15 per cent of the face amounts of such respective obligations, and accordingly the last payment of deferred interest as fixed for January 15, 1934, and February 15, 1934, respectively, will be something under three-fourths of 1 per cent.

Interest and sinking fund payment dates.	Period covered.	Annual interest (excess to sinking fund).	Annual back interest.	Annual sinking fund instalment.	Annual total.
		<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Oct. 15, 1919, to Apr. 15, 1922, both inclusive.....	3 years..	5	1½	.....	5½
Oct. 15, 1922, to Apr. 15, 1924, both inclusive.....	2 years..	5	1	.....	6
Oct. 15, 1924, to Apr. 15, 1926, both inclusive.....	2 years..	5	1½	.....	6½
Oct. 15, 1926, to Apr. 15, 1928, both inclusive.....	2 years..	5	1½	.....	7
Oct. 15, 1928, to Apr. 15, 1930, both inclusive.....	2 years..	5	1½	1½	7½
Oct. 15, 1930, to Apr. 15, 1934, both inclusive.....	4 years..	5	.....	1	6
Oct. 15, 1934, to Apr. 15, 1947, both inclusive.....	13 years..	5	.....	.....	.....

V.

The following table indicates generally the provisions of the attached form of obligation Series E regarding the dates and initial amount of interest payments and dates and amount of sinking fund payments. Similar provisions in this respect are also made in the forms attached of obligation Series F, G, H, I, J, K, and L, except the deferred interest to and inclusive of the first respective interest payment date in 1922 will aggregate in the case of Series F something more than 15 per cent of the face amount of such obligation, and accordingly the last payment of deferred interest as fixed for May 15, 1934, will be something over three-fourths of 1 per cent and in the case of obligations Series H, I, J, K, and L, something less than 15 per cent of the face amount of such respective obligations, and accordingly the last payment of deferred interest as fixed for January 15, 1934, for obligation Series H and February 15, 1934, for obligations Series, I, J, K, and L, will be something under three-fourths of 1 per cent.

Interest and sinking fund payment dates.	Period covered.	Annual interest (excess to sinking fund).	Annual back interest.	Annual sinking fund instalment.	Annual total.
	<i>Years.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Oct. 15, 1919, to Apr. 15, 1922, both inclusive.....	3	5	1½	.....	5½
Oct. 15, 1922, to Apr. 15, 1924, both inclusive.....	2	5	1	.....	6
Oct. 15, 1924, to Apr. 15, 1926, both inclusive.....	2	5	1½	.....	6½
Oct. 15, 1926, to Apr. 15, 1928, both inclusive.....	2	5	1½	.....	7
Oct. 15, 1928, to Apr. 15, 1930, both inclusive.....	2	5	1½	1½	7½
Oct. 15, 1930, to Apr. 15, 1934, both inclusive.....	4	5	.....	1	6
Oct. 15, 1934, to Apr. 15, 1938, both inclusive.....	4	5	.....	.....	.....

VI.

Anything herein contained to the contrary notwithstanding, it is distinctly understood that the Secretary of the Treasury, in the exercise of his unrestricted discretion shall determine whether or not the exchange of obligations contemplated by this arrangement shall be actually made and concluded, and if he shall determine to make such exchange the time when such exchange shall be effected. In case the Secretary of the Treasury shall determine not to make such exchange, then this arrangement shall cease to have any future effect whatsoever. Nevertheless until such exchange is effected or until the Secretary of the Treasury has given notice that he is not willing

to conclude the arrangement for such exchange, neither the principal nor the interest will be demanded on the aforementioned demand obligations of the British Government contemplated to be exchanged as above provided, except only to the extent that such principal or interest would be payable under the terms of the obligations for which it is now contemplated that the same shall be eventually exchanged.

VII.

Notwithstanding the foregoing and the arrangements made for the exchange of obligations and prior or subsequent to the actual exchange, the Secretary of the Treasury reserves the right to meet, in whole or in part, any claim arising from, growing out of, or relating to the war, of the British Government, or any department or agency thereof, against the United States Government, or any department or agency thereof, by the surrender of obligations of the British Government at par and accrued interest then unpaid at the rate of 5 per cent per annum from the date thereof, or by calling for the payment of such obligations, together with accrued interest thereon then unpaid, at the rate of 5 per cent per annum from the date thereof to the extent necessary to make payment of any such claim or claims.

VIII.

It is understood that the Secretary of the Treasury has released the British Treasury from all its obligations regarding subrogated securities so called, as set forth in the letter of Sir Hardman Lever to Assistant Secretary of the Treasury Rathbone, bearing date July 8, 1919.

IX.

Of the demand obligations of the British Government dealt with in this Part 2, \$16,000,000 principal amount represent advances to Great Britain for British purchases of foodstuffs in the United States subsequently sold by Great Britain to Austria, all in pursuance of arrangements for the relief of Austria made by or on behalf of the British, United States, and other Governments. It is contemplated that said \$16,000,000 principal amount of obligations shall form as to \$8,000,000 principal amount thereof part of the demand obligations be exchanged for the obligation Series E in the form attached; as to \$4,800,000 principal amount thereof part of the demand obligations to be exchanged for the obligation Series G in the form attached; as to \$1,600,000 principal amount thereof part of the demand obligations to be exchanged for the obligation Series H in the form attached, and as to \$1,600,000 principal amount thereof part of the demand obligations to be exchanged for the obligation Series I in the form attached. Notwithstanding any such exchange or the arrangements therefor the British Government shall continue obligated to pay and to transfer to the Secretary of the Treasury forthwith upon its receipt thereof, all payments, whether for principal and interest received by Great Britain on account of its participation in said measures for the relief of Austria until said \$16,000,000 principal amount, together with interest thereon from April 15, 1919, has been thus paid in full, and to otherwise observe and perform its obligations in respect to said \$16,000,000 advance set forth in letter from United States Commissioner of Finance Norman H. Davis to Mr. J. M. Keynes of the British

treasury dated March 29, 1919, and in subsequent correspondence between the American and British Treasuries on the aforesaid subject. All payments so made will be appropriately credited upon the obligations of the British Government held by the United States.

X.

If and when the Secretary of the Treasury shall give notice that he is prepared to make the exchange of obligations hereinbefore contemplated, such exchange will be made at the United States Treasury, Washington, D. C., and obligations of the United Kingdom of Great Britain and Ireland to the amount and in the forms herein provided will be there delivered against the cancellation and surrender of demand obligations of said Government in like amount.

WADSWORTH EXHIBIT No. 4.

(Draft of May 22.)

Extension of interest payments and exchange of \$4,090,818,358.44 principal amount of obligations of the British Government acquired and held by the Secretary of the Treasury under authority of the Liberty Loan acts of the United States.

I.

The aggregate of British Government obligations acquired by the Secretary of the Treasury.....	\$4,277,000,000.00
Of which there has been repaid.....	64,164,007.99
Balance outstanding.....	4,212,835,992.01
Of the above principal sum there was advanced to Great Britain for Pittman Silver purchases, net amount.....	122,017,633.57
Leaving a balance of obligations in the principal sum of.....	4,090,818.358.44

The foregoing obligations in the principal amount of \$4,090,818,358.44 are those dealt with in this arrangement.

II.

Of said obligations of.....	\$4,090,818,358.44
Net amount acquired under the authority of the first Liberty bond act.....	\$1,155,000,000.00
Net amount acquired under the authority of Liberty bond acts subsequent to first Liberty bond act.....	2,935,818,358.44
	4,090,818,358.44

The interest on all those of the above-mentioned obligations acquired by the Secretary of the Treasury prior to May 15, 1919, has been paid up to but not subsequent to the following dates (one obligation for \$30,000,000 is dated May 15, 1919, and carries interest from that date):

Up to Apr. 15, 1919, as to..	\$2,651,789,419.86
Up to May 15, 1919, as to..	1,412,028,938.58

\$4,063,818,358.44

Three obligations were given subsequent to May 15, 1919, and no interest has been paid thereon:

May 22, 1919.....	10,000,000.00
May 29, 1919.....	10,000,000.00
June 25, 1919.....	7,000,000.00

27,000,000.00

\$4,090,818,358.44

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The following table shows the dates to which interest has been paid in respect to the different classes of obligations given on or before May 15, 1919:

	Apr. 15, 1919.	May 15, 1919.	Total.
First Liberty bond act.....	\$1,155,000,000.00		\$1,155,000,000.00
Subsequent Liberty bond acts.....	1,496,789,419.86	\$1,412,028,938.58	2,908,818,358.44
Total.....	2,651,789,419.86	1,412,028,938.58	4,063,818,358.44

III.

Of the above \$4,090,818,358.44 principal amount of demand obligations of the British Government, \$16,000,000 principal amount represent advances to Great Britain for British purchases of foodstuffs in the United States subsequently sold by Great Britain to Austria, all in pursuance of arrangements for the relief of Austria made by or on behalf of the British, United States, and other Governments. As the repayment of such advance the British treasury will pay forthwith the principal of demand obligations held by the United States Treasury in the amount of \$16,000,000, together with interest accrued thereon at the rate of 5 per cent to the date of payment as to \$8,000,000 from April 15, 1919, and as to the remaining \$8,000,000 from May 15, 1919; but such payments shall in no manner release the British Government from its undertaking to sell to Austria foodstuffs purchased in the United States to the value of \$16,000,000 as provided in the arrangements for the relief of Austria hereinabove referred to.

In addition, in order to bring to a round figure the principal of the obligations of the British Government, the exchange of which is contemplated as hereinafter provided, the British treasury will also pay forthwith the principal of demand obligations held by the United States Treasury in the amount of \$818,358.44, together with the interest accrued thereon at the rate of 5 per cent to the date of payment as to \$789,419.86 from April 15, 1919, and as to \$28,938.58 from May 15, 1919. Payments made in accordance with this Section III will be appropriately credited upon the obligations of the British Government held by the United States. By the payment thus provided for, the principal amount of unpaid obligations, the exchange of which is dealt with hereinafter, is reduced to \$4,074,000,000.

IV.

The obligations to be given in exchange for the aforesaid demand obligations aggregating \$4,074,000,000 in principal amount are to be in series 12 in number, which are to be designated as Series A, B, C, D, E, F, G, H, I, J, K, and L, and of a principal amount of \$1,000,000 each, except in the cases where the total aggregate value of the obligations allotted to any series will require one obligation within that series of principal amount of less than \$1,000,000. Attached hereto as Schedules I and II, respectively, are the forms of obligations Series A and Series E. Except as otherwise indicated

obligations Series B, C, and D are to be in the form of obligation Series A, and obligations Series F, G, H, I, J, K, and L, are to be in the form of obligation Series E.

(1) The obligations of Series A, B, C and D are to aggregate in principal amount the sum of \$1,155,000,000, viz, the amount of such obligations acquired by the United States under the first Liberty loan act, and are to be dated April 15, 1919, and are to mature June 15, 1947.

(a) The obligation Series A in the principal amount of \$577,500,000 is to have as dates for interest payments and sinking fund payments April 15 and October 15.

(b) The obligation Series B in the principal amount of \$346,500,000 is to have as dates for interest payments and sinking fund payments May 15 and November 15.

(c) The obligation Series C in the principal amount of \$115,500,000 is to have as dates for interest payments and sinking fund payments January 15 and July 15.

(d) The obligation Series D in the principal amount of \$115,500,000 is to have as dates for interest payments and sinking funds payments February 15 and August 15.

(2) The obligations of Series E, F, G, H, and I are to aggregate in principal amount \$2,892,000,000 and are to mature October 15, 1938.

(a) The obligation Series E in the principal amount of \$1,459,500,000 is to be dated April 15, 1919, and the dates fixed for interest payments and sinking fund payments are to be April 15 and October 15.

(b) The obligation Series F in the principal amount of \$28,500,000 is to be dated April 15, 1919, and the dates fixed for interest payments and for sinking fund payments are to be February 15 and August 15.

(c) The obligation Series G in the principal amount of \$875,700,000 is to be dated May 15, 1919, and the dates fixed for interest payments and for sinking fund payments are to be May 15 and November 15.

(d) The obligation Series H in the principal amount of \$291,900,000 is to be dated May 15, 1919, and the dates fixed for interest payments and for sinking fund payments are to be January 15 and July 15.

(e) The obligation Series I in the principal amount of \$236,400,000 is to be dated May 15, 1919, and the dates fixed for interest payments and for sinking fund payments are to be February 15 and August 15.

(3) The obligations of Series J, K, and L, are to aggregate in principal amount the sum of \$27,000,000, are to have as dates for interest payments and sinking fund payments February 15 and August 15, and are to mature October 15, 1938.

(a) The obligation Series J in the principal amount of \$10,000,000 is to be dated May 22, 1919.

(b) The obligation Series K in the principal amount of \$10,000,000 is to be dated May 29, 1919.

(c) The obligation Series L in the principal amount of \$7,000,000 is to be dated June 25, 1919.

V.

The obligations of Series A and E, as indicated in the forms attached marked Schedule 1 and Schedule 2, respectively, will contain provisions that the interest accruing thereon for the three years period ending April 15, 1922, shall be paid without compounding upon that date in accrued sums amounting, respectively, to 15 per cent of the principal amounts of the respective obligations. Interest thereafter shall be paid semiannually on October 15 and April 15 of each year. Said obligations shall also contain provisions for sinking fund payments on interest payment dates commencing with October 15, 1928, and amounting on each such date in addition to the difference between $2\frac{1}{2}$ per cent of the original respective principal amounts of the obligations and $2\frac{1}{2}$ per cent of the respective principal amounts of such obligations outstanding on the interest payment dates, to one-fourth of 1 per cent from October 15, 1928, to April 15, 1930, both inclusive, and to one-half of 1 per cent from October 15, 1930, to April 15, 1947, both inclusive, in the case of obligations Series A, and to April 15, 1938, both inclusive, in the case of obligations Series E.

Provisions in these respects are also to be made in the obligations of Series B, C, D similar to those in obligations of Series A, as shown in form marked Schedule 1 attached hereto and in obligations of Series F, G, H, I, J, K, and L similar to those in obligations of Series E, as shown in form marked Schedule 2 attached hereto, except that the accrued interest sum to be paid on the first respective interest payment dates in the year 1922 will in the case of obligations of Series B amount to something more than 15 per cent of their respective principal amounts and in the cases of obligations of Series C, D, F, H, I, J, K, and L amount to something less than 15 per cent of their respective principal amounts.

VI.

Anything herein contained to the contrary notwithstanding, it is distinctly understood that the Secretary of the Treasury, in the exercise of his unrestricted discretion shall determine whether or not the exchange of obligations contemplated by this arrangement shall be actually made and concluded, and if he shall determine to make such exchange the time when such exchange shall be effected. In case the Secretary of the Treasury shall determine not to make such exchange, then this arrangement shall cease to have any future effect whatsoever. Nevertheless until such exchange is effected or until the Secretary of the Treasury has given notice that he is not willing to conclude the arrangement for such exchange, neither the principal nor the interest will be demanded nor paid on the aforementioned demand obligations of the British Government contemplated to be exchanged as above provided, except only to the extent that such principal or interest would be payable under the terms of the obligations for which it is now contemplated that the said demand obligations may be eventually exchanged.

VII.

Notwithstanding the foregoing and the arrangements made for the exchange of obligations and prior or subsequent to the actual exchange, the Secretary of the Treasury reserves the right to meet, in whole or in part, any claim arising from growing out of, or relating to the war, of the British Government, or any department or agency thereof, against the United States Government, or any department or agency thereof, by the surrender of obligations of the British Government at par and accrued interest then unpaid at the rate of 5 per cent per annum from the date thereof, or by calling for the payment of such obligations, together with accrued interest thereon then unpaid, at the rate of 5 per cent per annum from the date thereof to the extent necessary to make payment of any such claim or claims.

VIII.

It is understood that the Secretary of the Treasury has released the British Treasury from all its obligations regarding subrogated securities so called, as set forth in the letter of Sir Hardman Lever to Assistant Secretary of the Treasury Rathbone bearing date July 8, 1919.

IX.

If and when the Secretary of the Treasury shall give notice that he is prepared to make the exchange of obligations hereinbefore contemplated, such exchange will be made at the United States Treasury, Washington, D. C., and obligations of the United Kingdom of Great Britain and Ireland to the amount and in the forms herein provided will be there delivered against the cancellation and surrender of demand obligations of said Government in like amount.

WADSWORTH EXHIBIT No. 5.

(Draft of Apr. 30.)

PART 4.

Treatment of certain obligations of the Governments of France, Italy, Belgium, Rumania, Serbia, and Czechoslovakia held by the American and British treasuries.

I.

By the term "Serbia" there is intended to be designated not only that country as it existed in 1914, but also the Serb, Croat, and Slovene State, and the obligations of Serbia and of said State are dealt with together and referred to as the obligations of Serbia.

II.

The following table shows the principal amount of demand obligations of the respective Governments designated held by the Secretary of the Treasury, the principal amounts thereof acquired by virtue of the first Liberty bond act and the principal amounts thereof acquired

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and held under subsequent Liberty loan acts, and as well substantially the respective proportions of the whole of said various amounts so acquired and held:

	Total.	First Liberty bond act.		Liberty bond acts subsequent to first.	
		Principal amount.	Approximate proportion.	Principal amount.	Approximate proportion.
			<i>Per cent.</i>		<i>Per cent.</i>
France.....	\$2,935,330,800	\$650,000,000	22	\$2,285,330,800	78
Italy.....	1,626,388,986	175,000,000	11	1,451,388,986	89
Belgium.....	338,735,000	35,000,000	10	303,735,000	90
Rumania.....	25,000,000			25,000,000	100
Serbia.....	26,780,465	1,500,000	6	25,280,465	94
Czechoslovakia.....	56,524,041			56,524,041	100

The following table shows the dates to which interest has been paid on the obligations of the Governments aforesaid acquired and held by the Secretary of the Treasury under the Liberty loan acts:

	Interest paid to Apr. 15, 1919, on obligations aggregating.	Interest paid to May 15, 1919, on obligations aggregating.	No interest paid on obligations acquired since May 4, 1919, aggregating.
France.....	\$1,590,000,000	\$960,330,800.00	\$365,000,000.00
Italy.....	790,000,000	730,500,000.00	105,838,886.99
Belgium.....	197,535,000	123,550,000.00	17,650,000.00
Rumania.....	10,000,000	10,000,000.00	5,000,000.00
Serbia.....	17,000,000	9,718,608.27	61,857.29
Czechoslovakia.....	14,100,000	17,000,000.00	25,334,041.10

NOTE.—The Government of Rumania has, in addition, paid \$153,610.02 of interest falling due October 15, 1919, from the proceeds of certain material theretofore sold to the United States War Department.

Some comparatively small readjustments will yet have to be made before final figures can be obtained regarding the final amount of said obligations and to accurately determine in certain cases the proportion of the whole advanced under the first Liberty bond act.

Advances may yet be made to France under a credit heretofore established and transferred to the Bank of France, to Italy for dollar reimbursement and possibly for replacement of cereals furnished Austria, to Belgium for dollar reimbursement, and to Czechoslovakia for repatriation of troops, etc.

Repayment on account of principal or of accrued interest or both are anticipated of French obligations through the operation of the arrangement set forth in Part I, relating to dollar reimbursement and possibly to offset any balance that may be due France by the United States War Department, of Belgian, Rumanian and Serbian and possibly other obligations on final settlement of accounts of American Relief Organization, C. R. B., and other similar organizations, which may show that Treasury advances to certain countries for designated purposes exceeded the amounts required for such purposes.

* * * * *

It is agreed between the American and British Treasuries in principle that the obligations held by them, respectively, of the countries aforesaid should be refunded into obligations of substantially the same form, having like dates of maturity, bearing the same rate of interest, providing similarly for the postponement of interest (without compounding thereof), and the repayment thereof over the same period and in the same proportionate installments. The American and British Treasuries are now prepared in the closest cooperation and forthwith to negotiate with the aforesaid Governments for such exchange of obligations and for such postponement of interest upon receipt from said respective debtor Governments of requests for such exchange and postponement, setting forth circumstances which jus-

tify the deferring of such interest. In general the two treasuries are prepared to collaborate in negotiating with such respective Governments an arrangement substantially on the lines of part 2 of this arrangement between the American and British Treasuries. The form of the obligations to be given in exchange by said respective debtor countries to the two treasuries shall be substantially on the lines of the form of obligations attached to part 2 of this arrangement, with such modifications as may be required by the provisions in this part 4 set forth, or because of the currencies of the respective debtor countries and its relation to the currencies of the creditor countries.

The obligations of said debtor countries to be delivered in exchange to the American Treasury shall be payable in gold dollars and those to be delivered in exchange to the British Treasury shall be payable in pounds sterling with, in each case, similar provisions to those set forth in said forms of obligations attached to part 2 for payments in currencies of the debtor Governments, except that obligations receivable by the British Treasury from France may be payable in dollars to the extent of \$..... In the exchange of obligations of each of said debtor Governments, the obligations of each such Government receivable in exchange by the American Treasury are to mature June 15, 1947, in respect to a principal amount equal to the principal amount of obligations acquired under the first Liberty bond act, and the obligations of each Government to be received in exchange by the British Treasury maturing June 15, 1947, are to bear substantially the same proportion to the entire amount of obligations of that Government receivable in exchange by the British Treasury (viz, those maturing both on June 15, 1947, and on October 15, 1938) as that borne by the obligations of said Government to be received by the American Treasury maturing June 15, 1947, to the entire amount of obligations of said Government to be received by the American Treasury (viz, those maturing both on June 15, 1947, and on October 15, 1938).

V.

In the case of France the willingness of the two treasuries to make the arrangement above indicated is dependent upon France agreeing in close cooperation with the American and British Treasuries to forthwith make arrangements with such of such debtor Governments to which France has made advances since July 1, 1914, similar in all respect to the arrangements which the American and British Treasuries are prepared to make with such respective Governments.

VI.

In regard to Belgium, Rumania, Serbia and Czechoslovakia, the arrangements to be made with said countries may include a charge upon indemnity or reparation payments receivable by them from enemy or ex-enemy countries in favor of obligations given (or obligations received in exchange for those given) on or after November 11, 1918, for relief or reconstruction purposes (including in that term advances for foodstuffs). If either Treasury determines to avail of such charge, provision therefor shall be made in the obligations receivable in exchange by such Treasury, and the other Treasury

may likewise, by similar provision in the obligations receivable by it in exchange, avail also of such charge, which will, in each such case, inure to the benefit of the respective Treasuries in proportion to the amount of the obligations entitled to the benefit thereof receivable by the respective treasuries. Similarly France to the extent, if any, she has made any such advances to the countries designated may obtain a like proportionate benefit of any such charge.

VII.

The arrangements to be negotiated with said respective debtor countries are to be in all cases subject to provisions similar to those set forth in paragraphs VI, VII, and X, of part 2. Authority and discretion similar to that retained by the Secretary of the Treasury in respect to action by America in regard to obligations held or to be held by the American Treasury shall be retained by the Chancellor of the Exchequer in respect to action by Great Britain in regard to obligations held or to be held by the British Treasury.

VIII.

The arrangements set forth in this part 4 are solely between the American and British Treasuries and may be varied, modified, or abandoned as may be agreed upon between them. No rights hereunder are intended to be conferred upon any Government other than the Governments of the United States and of the United Kingdom of Great Britain and Ireland, or upon any treasury other than the American and British Treasuries.

WADSWORTH EXHIBIT No. 6.

(Draft of May 12.)

Schedule 1.

The Government of the United Kingdom of Great Britain and Ireland 5 Per Cent Convertible Gold Obligation, bearing date April 15, 1919, maturing June 15, 1947.

Principal Amount \$577,500,000, Series A.

The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed the Obligor), for value received, promises to pay to the Government of the United States of America, or assigns, the sum of five hundred seventy-seven million five hundred thousand dollars (\$577,500,000) on the fifteenth day of June, 1947, and to pay interest on said principal amount at the rate of five per centum (5%) per annum from the fifteenth day of April, 1919, at the times and otherwise as hereinafter provided. The payment of interest accruing on this obligation up to the fifteenth day of April, 1922, is postponed without compounding interest and, save except and to the extent hereafter provided, no interest upon this obligation shall be payable prior to the fifteenth day of October, 1922. The interest accruing during said three year period is hereinafter termed the deferred interest. On the fifteenth day of October, 1922, and on each and every fifteenth day of April and fifteenth day of October

thereafter during the life of this obligation (said dates being designated as the interest-payment dates) a semiannual installment of interest shall become due and payable on this obligation equal to two and one-half per centum ($2\frac{1}{2}\%$) of the principal thereof, and on the fifteenth day of June, 1947, there shall become due and payable the interest accrued at the rate aforesaid from the preceding fifteenth day of April. The deferred interest aggregating fifteen per centum (15%) of the principal of this obligation shall become due and payable as follows:

Installments of one-quarter of one per centum ($\frac{1}{4}\%$) of the principal amount of this obligation on each and every of the interest payment dates from the fifteenth day of October, 1922, to the fifteenth day of April, 1924, both dates inclusive; of one-half of one per centum ($\frac{1}{2}\%$) of the principal amount of this obligation on each and every of the interest payment dates from the fifteenth day of October, 1924, to the fifteenth day of April, 1926, both dates inclusive; and of three-quarters of one per centum ($\frac{3}{4}\%$) of the principal amount of this obligation on each and every of the interest payment dates from the fifteenth day of October, 1926, to the fifteenth day of April, 1934, both dates inclusive: Provided, however, that if for any thirty-day period prior to the payment of all of the said installments of deferred interest the average dollar buying cable rate for sterling in New York, as fixed by the Federal Reserve Bank of New York City at noon each business day shall equal or be in excess of \$4.84 United States gold of the present standard of weight and fineness to the gold pound sterling of the present standard of weight and fineness, then there shall become due and payable on the fifteenth day of the next succeeding calendar month the total amount remaining unpaid of the deferred interest which has accrued up to the date so fixed for payment, and if any such payment shall so become due prior to the fifteenth day of April, 1922, then and in that event the remaining deferred interest shall be and become due up to and be payable upon each and every fifteenth day of April and fifteenth day of October during said three year period subsequent to the date upon which any such payment shall so become due.

Both principal and interest of this obligation will be paid in gold coin of the United States of America, of the present standard of weight and fineness at the Treasury of the United States in the City of Washington, or at the Subtreasury of the United States in the City of New York, or, at the option of the holder hereof, at the Bank of England in the City of London, England, in pounds sterling of Great Britain, at the fixed rate of exchange of dollars gold of the present standard of weight and fineness, 4.8665 to the gold pound sterling of the present standard of weight and fineness.

The principal and interest of this obligation will be paid without deduction for, and shall be exempt from, any and all taxation, present or future, imposed by authority of the obligor or its possessions or by any political or local taxing authority within the British Empire whenever, so long as and to the extent that the beneficial ownership of this obligation is in (A) the Government of the United States or (B) a person or association neither domiciled nor ordinarily resident in the United Kingdom of Great Britain and Ireland, or (C) a corporation not organized under the laws of the United Kingdom of Great Britain and Ireland.

From time to time, on or after the fifteenth day of April, 1924, at the request of the holder of this obligation, the Obligor, at the United States Treasury, Washington, will convert all or any part of the principal amount of this obligation into—

(1) An equal principal amount of engraved obligations bearing interest at the same rate as the principal amount converted, and substantially in the form indicated in Exhibit A, hereto attached, payable to bearer and negotiable by delivery, with interest coupons attached, in denominations of \$50, \$100, \$500, and \$1,000, or registered as to principal and interest and in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000; and/or

(2) An equivalent principal amount, at the fixed rate of exchange of dollars gold of the present standard of weight and fineness 4.8665 to the gold pound sterling of the present standard of weight and fineness, of engraved obligations bearing interest at the same rate as the principal amount converted, and substantially in the form indicated in Exhibit B, hereto attached, payable to bearer and negotiable by delivery, with interest coupons attached, in denominations of 100 pounds, 500 pounds, 1,000 pounds, and 5,000 pounds, or registered as to principal and interest and in denominations of 50 pounds, 100 pounds, 500 pounds, 1,000 pounds, 10,000 pounds, and 50,000 pounds.

At the option of the holder of this obligation, to be exercised by such holder at the time of making of each request for conversion, the obligations into which at any time the principal of this obligation, or any part thereof, shall be so converted may carry the deferred interest not theretofore paid, and/or participation in the sinking fund payments payable as hereinafter provided; otherwise, such deferred interest and/or such sinking fund payments shall remain payable upon and in accordance with the terms of this obligation, notwithstanding any such conversion.

Upon any such conversion notation shall be made on this obligation that the principal amount thereof has been reduced, as of the date from which the obligations issued on such conversion shall bear interest, by an amount equal to the aggregate principal amount of obligations payable in dollars and equivalent at the rate aforesaid to the aggregate principal amount of obligations payable in sterling money issued upon such conversion; and appropriate notation shall also be made on this obligation to indicate whether the deferred interest remaining unpaid at the time of such conversion, and/or participation in the sinking fund payments payable as hereinafter provided are carried by the obligations received upon any such conversion or remain payable upon and in accordance with the terms of this obligation. In case the principal amount of this obligation, or any part thereof, shall be converted into obligations substantially in the form indicated in Exhibit B, hereto attached, the Obligor, forthwith and as often as any such conversion shall be made, will cause to be promulgated all such rules, regulations and orders as are usual and requisite to enable the bonds into which such conversion shall be made to be sold and dealt in in the United Kingdom of Great Britain and Ireland, and will use its good offices to secure that said bonds shall be listed on the London Stock Exchange.

The Obligor, however, in lieu of making any conversion so requested, by giving notice of its election so to do within 10 days of the making of such request for conversion, may, in the manner hereafter provided,

pay and redeem a principal amount of this obligation equal to the aggregate of the principal of the obligations called for by such request for conversion. After the payment in full of the deferred interest, the Obligor, at its option, by giving notice of its election so to do, may, in the manner hereafter provided, pay and redeem the principal amount of this obligation, or any part thereof (but if a part not in amounts less than \$100,000,000 or its equivalent), unless and except to the extent that if said principal amount has been specified in any such request for conversion made prior to the giving of notice of such election of payment and redemption. Written notice of any such election by the Obligor shall be delivered to the holder of this obligation, and shall specify an interest payment date for such redemption and payment not less than three months nor more than six months subsequent to the date of delivery of such notice of election. Within 20 days after the receipt of any such notice of election the holder of this obligation may, by notice to the Obligor, determine upon and fix any date or dates for such redemption and payment, at one time or in installments, not later, however, than 12 months after the date specified in such election.

On the date or dates so fixed, at the option of the holder of this obligation, there shall become due and be payable, and the Obligor shall have the right to pay and redeem, the principal amount of this obligation specified in any such election, and in the installments, if any, fixed by any such determination, together with accrued interest thereon to the date or dates of payment thereof, including all deferred interest upon such principal amount not theretofore paid: *Provided, however,* In case the holder of this obligation shall within sixty days after the receipt of any such notice of election give notice to the Obligor of its determination to receive all or any part of the sums payable upon any such redemption in Liberty bonds of the United States, then and in that event the Obligor, to the extent so specified, shall be entitled only and shall be obligated to effect such payment and redemption in such Liberty bonds taken at par and accrued and unpaid interest. If said principal amount shall be paid by the Obligor in the manner and on the date or dates fixed as herein provided, interest on such principal amount shall thereafter cease.

In order to enable the holder of this bond, until its payment in full, at its election, to prevent or curtail the export of gold from the United States of America, the Obligor, from time to time, upon the request of the holder of this bond delivered at the British Embassy in Washington, during such period or periods as shall be specified in any such request, will freely and publicly offer for sale in New York City demand sterling drafts on London at the equivalent of \$4.87½ United States gold of the present standard of weight and fineness to the gold pound sterling of the present standard of weight and fineness, and during such periods will sell such drafts to all bidders at said price and forthwith, upon the receipt of the proceeds of all such sales, will pay the same to the holder of this obligation, to be by it applied towards the payment in dollars of: First, the total amount then unpaid of deferred interest, and, second, the principal amount of this bond, and interest will be adjusted accordingly.

To provide for the partial amortization before maturity of the principal of this obligation the Obligor shall make the following payments termed sinking fund payments at the times hereinafter designated, to be applied upon the principal amount of this obligation:

(a) On the fifteenth day of October, 1928, and on each and every interest payment date thereafter to and including the fifteenth day of April, 1947, an amount equal to the difference between two and one-half per centum ($2\frac{1}{2}\%$), computed upon the sum of \$577,500,000 and two and one-half per centum ($2\frac{1}{2}\%$), computed as of each date upon which such sinking fund payment is to be made upon the principal amount of this obligation remaining outstanding and unpaid upon each of said respective dates; and

(b) In addition to the payments provided in subdivision (a), on October 15, 1928, the sum of \$1,443,750; on April 15, 1929, the sum of \$1,443,750; on October 15, 1929, the sum of \$1,443,750; on April 15, 1930, the sum of \$1,443,750; on October 15, 1930, the sum of \$2,887,500; on April 15, 1931, the sum of \$2,887,500; on October 15, 1931, the sum of \$2,887,500; on April 15, 1932, the sum of \$2,887,500; on October 15, 1932, the sum of \$2,887,500; on April 15, 1933, the sum of \$2,887,500; on October 15, 1933, the sum of \$2,887,500; on April 15, 1934, the sum of \$2,887,500; on October 15, 1934, the sum of \$2,887,500; on April 15, 1935, the sum of \$2,887,500; on October 15, 1935, the sum of \$2,887,500; on April 15, 1936, the sum of \$2,887,500; on October 15, 1936, the sum of \$2,887,500; on April 15, 1937, the sum of \$2,887,500; on October 15, 1937, the sum of \$2,887,500; on April 15, 1938, the sum of \$2,887,500; on October 15, 1938, the sum of \$2,887,500; on April 15, 1939, the sum of \$2,887,500; on October 15, 1939, the sum of \$2,887,500; on April 15, 1940, the sum of \$2,887,500; on October 15, 1940, the sum of \$2,887,500; on April 15, 1941, the sum of \$2,887,500; on October 15, 1941, the sum of \$2,887,500; on April 15, 1942, the sum of \$2,887,500; on October 15, 1942, the sum of \$2,887,500; on April 15, 1943, the sum of \$2,887,500; on October 15, 1943, the sum of \$2,887,500; on April 15, 1944, the sum of \$2,887,500; on October 15, 1944, the sum of \$2,887,500; on April 15, 1945, the sum of \$2,887,500; on October 15, 1945, the sum of \$2,887,500; on April 15, 1946, the sum of \$2,887,500; on October 15, 1946, the sum of \$2,887,500; and on April 15, 1947, the sum of \$2,887,500.

The aforesaid sinking fund payments shall be made in gold coin of the United States of the present standard of weight and fineness at the Treasury of the United States in the City of Washington or at the subtreasury of the United States in the city of New York, or, at the option of the holder hereof, at the Bank of England in the city of London, England, in pounds sterling of Great Britain at the fixed rate of exchange of dollars gold of the present standard of weight and fineness 4.8665 to the gold pound sterling of the present standard of weight and fineness. Appropriate notation will be made on this obligation of all payments made on account of the principal thereof. No reduction in the principal amount of this obligation shall in any wise affect or impair the obligation of the obligor to make payment of the full amount of the deferred interest as hereinbefore provided, and notwithstanding any such payment on account of the principal amount the obligation of the obligor to make payment of the deferred interest as hereinbefore provided shall remain in full force and effect.

The obligor, not less than three days before there shall become payable on this obligation any amount for principal and/or interest, current and/or deferred, and whether as sinking fund payment or

through election of redemption or otherwise (except amounts required to be paid on account of this obligation resulting from the sale of demand sterling drafts on London) for the purpose of making such payments, will deposit the amounts required therefor at the Treasury of the United States in the city of Washington, or at the sub-treasury of the United States in the city of New York.

If and whenever any of the bonds of the United States issued under authority of the act of Congress known as the first Liberty bond act, or any bonds issued in conversion of any said bonds, shall be converted into other bonds of the United States bearing a higher rate of interest than $4\frac{1}{2}$ per cent per annum, then and in every such event a proportionate principal amount of this obligation shall be by the obligor converted par for par at the Treasury of the United States in the city of Washington, into an obligation bearing interest at a rate exceeding that previously borne by this obligation by the same amount as the interest rate of the bonds of the United States issued upon such conversion exceed the interest rate of $4\frac{1}{2}$ per cent, but not less than the highest rate of interest borne by such bonds of the United States, and in other respects identical with this bond. Every such conversion shall be made as of the date when the bonds of the United States were converted into bonds bearing such higher rate of interest, and interest will be adjusted accordingly.

So long as this obligation remains the property of the Government of the United States of America, any notice, request, election, or consent under the hand of the Secretary of the Treasury of the United States shall be deemed and taken as the notice, request, election, or consent of the holder of this obligation; and shall be sufficient, if delivered at the British Embassy, Washington; and any notice, request, or election from or by the obligor shall be delivered to the Secretary of the Treasury at the United States Treasury in Washington.

This obligation bears date April 15, 1919.

For the Government of the Kingdom of Great Britain and Ireland.

[Draft May 13.]

EXHIBIT A TO SCHEDULE I.

(Form of coupon bond payable in dollars.)

\$-----

No. -----

The Government of the Kingdom of Great Britain and Ireland
Converted ----- Per Cent Gold Bonds Maturing June 15, 1947.
Series -----

The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed the obligor), for value received, promises to pay to bearer, or, if this bond be registered, then to the registered holder hereof, the sum of ----- dollars on the fifteenth day of June, 1947, and to pay interest on said principal sum from the fifteenth day of -----, 19—, at the rate of ----- per centum per annum, payable on the fifteenth day of -----, 19—, and semi-annually thereafter on the fifteenth days of April and October in

each year, and on the date when the principal sum shall mature, but only upon the presentation and surrender of the coupons for such interest, hereto attached, as severally they mature. (In case the converted bonds of this series are to carry all or any part of the deferred interest mentioned in the original obligation, appropriate provisions dealing with such deferred interest will be here inserted.)

The principal and interest of this bond will be paid in gold coin of the United States of America of the standard of weight and fineness existing on the fifteenth day of April, 1919, at the office or agency which the obligor will establish and maintain for that purpose, until the payment of all bonds of this series, in the Borough of Manhattan, city of New York, N. Y., or, at the option of the holder of this bond, said principal and interest will be paid at the Bank of England in the city of London, in pounds sterling of Great Britain, at the fixed rate of exchange of dollars gold of the standard of weight and fineness existing on the fifteenth day of April, 1919, 4.86½ to the gold pound sterling of the standard of weight and fineness existing on the fifteenth day of April, 1919. The principal and interest of this bond will be paid without deduction for and shall be exempt from any and all taxation, present or future, imposed by authority of the obligor or its possessions, or by any political or local taxing authority within the United Kingdom of Great Britain and Ireland whenever, so long as and to the extent that the beneficial ownership of this bond is in (a) the Government of the United State; (b) a person or association neither domiciled nor ordinarily resident in the United Kingdom of Great Britain and Ireland; or (c) a corporation not organized under the laws of the United Kingdom of Great Britain and Ireland.

This bond is one of a series of converted ----- per cent gold bonds of the obligor maturing June 15, 1947, series -----, aggregating \$----- in principal amount, bearing distinctive serial numbers and consisting of coupon bonds in the denominations of \$50, \$100, \$500, and \$1,000, and of fully registered bonds without coupons in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000. Under such reasonable regulations as the obligor shall prescribe and at its office or agency aforesaid, bonds of this series of different authorized denominations, and as well coupon and registered bonds, will be interchangeable, in equal aggregate principal amounts, upon payment, if the obligor shall require, of a charge not exceeding \$1 for each new bond issued. This bond may be registered as to principal in the name of the holder upon presentation of the same for such purpose at the aforesaid office or agency of the obligor for notation of such registration thereon; after such registration no transfer shall be valid unless made by the registered holder in person or by his duly authorized attorney and similarly noted hereon, but transferability by delivery may be restored by transfer to bearer and like notation thereof hereon; no such registration shall affect the transferability of the annexed coupons which will continue to be payable to bearer.

(In case the converted bonds of this series are to participate in the benefit of all or any part of the sinking-fund payments mentioned in the original obligation, appropriate provisions dealing with such sinking-fund payments will be here inserted.)

For the Government of the United Kingdom of Great Britain and Ireland:

(Form of coupon.)

\$-----

No. -----

On ----- 15, 19—, the Government of the United Kingdom of Great Britain and Ireland will pay to bearer, at its office or agency in the city of New York, the sum of ----- dollars in United States gold coin of the standard of weight and fineness existing April 15, 1919, or, at the option of the holder, at the Bank of England, in the city of London, in pounds sterling of Great Britain at the fixed rate of exchange of dollars gold of the standard of weight and fineness existing April 15, 1919, 4.86½ to the gold pound sterling of the standard of weight and fineness existing April 15, 1919, being six months' interest then due on its converted ----- per cent gold bond maturing June 15, 1947, Series -----, numbered -----.

For the Government of the United Kingdom of Great Britain and Ireland:

(The appropriate changes will be made in coupon payable June 15, 1947.)

(Form of registered bond payable in dollars.)

\$-----

No. -----

The Government of the Kingdom of Great Britain and Ireland Converted ----- per cent Gold Bonds Maturing June 15, 1947.

Series: -----

The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed the Obligor), for value received, promises to pay to -----, or registered assigns, the sum of ----- dollars, on the fifteenth day of June, 1947, and to pay interest on said principal sum from the fifteenth day of October or the fifteenth day of April next preceding the date of this bond, or, if this bond be dated as of any October fifteenth or April fifteenth, then from the date of this bond, at the rate of ---- per centum per annum, payable semiannually on the fifteenth days of April and October in each year and on the date when the principal sum shall mature. (In case the converted bonds of this series are to carry all or any part of the deferred interest mentioned in the Original Obligation, appropriate provisions dealing with such deferred interest will be here inserted.)

The principal and interest of this bond will be paid in gold coin of the United States of America of the standard of weight and fineness existing on the fifteenth day of April, 1919, at the office or agency which the obligor will establish and maintain for that purpose, until the payment of all bonds of this series, in the Borough of Manhattan, City of New York, N. Y., or, at the option of the holder of this bond, said principal and interest will be paid at the Bank of England in the City of London, in pounds sterling of Great Britain, at the fixed rate of exchange of dollars gold of the standard of weight and fineness existing on the fifteenth day of April, 1919, 4.86½ to the gold pound sterling of the standard of weight and fineness existing on the fifteenth day of April, 1919. The principal and interest of this bond will be paid without deduction for and shall be exempt from any and all taxation, present or future, imposed by

authority of the obligor or its possessions, or by any political or local taxing authority within the United Kingdom of Great Britain and Ireland whenever, so long as and to the extent that the beneficial ownership of this bond is in (a) the Government of the United States; (b) a person or association neither domiciled nor ordinarily resident in the United Kingdom of Great Britain and Ireland; or (c) a corporation not organized under the laws of the United Kingdom of Great Britain and Ireland.

This bond is one of a series of converted per cent gold bonds of the Obligor maturing June 15, 1947, Series , aggregating \$ in principal amount, bearing distinctive serial numbers, and consisting of coupon bonds in the denominations of \$50, \$100, \$500, and \$1,000, and of fully registered bonds without coupons in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000. Under such reasonable regulations as the Obligor shall prescribe, and at its office or agency aforesaid, bonds of this series of different authorized denominations, and as well coupon and registered bonds, will be interchangeable, in equal aggregate principal amounts, upon payment, if the Obligor shall require, of a charge not exceeding \$1 for each new bond issued. This bond is transferable by the registered holder, in person or by attorney duly authorized, upon the surrender of this bond at the aforesaid office or agency of the Obligor, and a new registered bond, or bonds of like aggregate principal amount, and carrying interest from the same date as that from which the registered bond surrendered carried interest, will be issued to the transferee in exchange therefor upon payment, if the Obligor shall require, of a charge not exceeding \$1 for each new bond issued.

(In case the converted bonds of this series are to participate in the benefit of all or any part of the sinking-fund payments mentioned in the original obligation, appropriate provisions dealing with such sinking-fund payments will be here inserted.)

Dated 19 .

For the Government of the United Kingdom of Great Britain and Ireland:

(Draft of May 13, as Revised.)

Schedule 1.

The Government of the United Kingdom of Great Britain and Ireland 5 per cent convertible gold obligations, Series A, in the aggregate principal amount \$577,500,000, dated April 15, 1919, maturing June 15, 1947.

The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed the Obligor), for value received, promises to pay to the Government of the United States of America, or assigns, the sum of five hundred seventy-seven million five hundred thousand dollars (\$577,500,000) on the fifteenth day of June, 1947, and to pay interest on said principal amount at the rate of five per centum (5%) per annum from the fifteenth day of April, 1919, at the times and otherwise as hereinafter provided. The payment of interest accruing on this obligation up to the fifteenth day of October, 1921, is postponed without compounding interest and, save, except and to the extent hereafter provided, no interest upon this obligation

shall be payable prior to the fifteenth day of April, 1922. The interest accruing during said period is hereinafter termed the deferred interest.

On the fifteenth day of April, 1922, and on each and every fifteenth day of October and fifteenth day of April thereafter during the life of this obligation (said dates being designated as the interest-payment dates) a semiannual instalment of interest shall become due and payable on this obligation equal to two and one-half per centum (2½%) of the principal thereof, and on the fifteenth day of June, 1947, there shall become due and payable the interest accrued at the rate aforesaid from the preceding fifteenth day of April. The deferred interest shall become due and payable on April 15, 1922: Provided, however, that if for any thirty-day period prior to the payment of the said deferred interest the average dollar buying cable rate for sterling in New York, as fixed by the Federal Reserve Bank of New York City at noon each business day, shall equal or be in excess of \$4.84 United States gold of the present standard of weight and fineness, to the gold pound sterling of the present standard of weight and fineness, then there shall become due and payable on the fifteenth day of April or the fifteenth day of October next ensuing after the expiration of three months from the expiration of said thirty-day period the total amount remaining unpaid of the deferred interest which has accrued up to the date so fixed for payment, and if any such payment shall so become due prior to the fifteenth day of October, 1922, then and in that event the remaining deferred interest shall be and become due up to and be payable upon each and every fifteenth day of April and fifteenth day of October subsequent to the date upon which any such payment of deferred interest shall so become due.

Both principal and interest of this obligation will be paid in gold coin of the United States of America of the present standard of weight and fineness at the Treasury of the United States in the City of Washington or at the Sub-Treasury of the United States in the City of New York, or, at the option of the holder hereof, at the Bank of England in the City of London, England, in pounds sterling of Great Britain, at the fixed rate of exchange of dollars gold of the present standard of weight and fineness 4.8665 to the gold pound sterling of the present standard of weight and fineness.

The principal and interest of this obligation will be paid without deduction for, and shall be exempt from, any and all taxation, present or future, imposed by authority of the Obligor or its possessions or by any political or local taxing authority within the British Empire whenever, so long as and to the extent that the beneficial ownership of this obligation is in (A) the Government of the United States or (B) a person or association neither domiciled nor ordinarily resident in the United Kingdom of Great Britain and Ireland, or (C) a corporation not organized under the laws of the United Kingdom of Great Britain and Ireland.

From time to time, at the request of the holder of this obligation, the Obligor, at the United States Treasury, Washington, will convert all or any part of the principal amount of this obligation into—

(1) An equal principal amount of engraved obligations bearing interest at the same rate as the principal amount converted, and sub-

stantially in the form indicated in Exhibit A, hereto attached, payable to bearer and negotiable by delivery, with interest coupons attached, in denominations of \$50, \$100, \$500, and \$1,000, or registered as to principal and interest and in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000; and/or

(2) An equivalent principal amount, at the fixed rate of exchange of dollars gold of the present standard of weight and fineness 4.8665 to the gold pound sterling of the present standard of weight and fineness, of engraved obligations bearing interest at the same rate as the principal amount converted, and substantially in the form indicated in Exhibit B, hereto attached, payable to bearer and negotiable by delivery, with interest coupons attached, in denominations of 100 pounds, 500 pounds, 1,000 pounds and 5,000 pounds, or registered as to principal and interest and in denominations of 50 pounds, 100 pounds, 500 pounds, 1,000 pounds, 10,000 pounds, and 50,000 pounds.

At the option of the holder of this obligation, to be exercised by such holder at the time of making of each request for conversion, the obligations into which at any time the principal of this obligation, or any part thereof, shall be so converted may carry the deferred interest not theretofore paid, and/or participation in the sinking fund payments payable as hereinafter provided; otherwise, such deferred interest and/or such sinking fund payments shall remain payable upon and in accordance with the terms of this obligation, notwithstanding any such conversion.

Upon any such conversion notation shall be made on this obligation that the principal amount thereof has been reduced, as of the date from which the obligations issued on such conversion shall bear interest, by an amount equal to the aggregate principal amount of obligations payable in dollars and equivalent at the rate aforesaid to the aggregate principal amount of obligations payable in sterling money issued upon such conversion; and appropriate notation shall also be made on this obligation to indicate whether the deferred interest remaining unpaid at the time of such conversion, and/or participation in the sinking fund payments payable as hereinafter provided is carried by the obligations received upon any such conversion or remain payable upon and in accordance with the terms of this obligation. In case the principal amount of this obligation, or any part thereof, shall be converted into obligations substantially in the form indicated in Exhibit B, hereto attached, the Obligor, forthwith and as often as any such conversion shall be made, will cause to be promulgated all such rules, regulations, and orders as are usual and requisite to enable the bonds into which such conversion shall be made to be sold and dealt in in the United Kingdom of Great Britain and Ireland, and will use its good offices to secure that said bonds shall be listed on the London Stock Exchange.

The obligor, however, in lieu of making any conversion so requested, by giving notice of its election so to do within ten days of the making of such request for conversion, may, in the manner hereafter provided, pay and redeem a principal amount of this obligation equal to the aggregate of the principal of the obligations called for by such request for conversion. Written notice of any such election by the Obligor shall be delivered to the holder of this obligation and shall specify date for such redemption and payment not less than

thirty days nor more than three months subsequent to the date of delivery of such notice of election. Within twenty days after the receipt of any such notice of election, the holder of this obligation may, by notice to the Obligor, determine upon and fix any date or dates for such redemption and payment, at one time or in instalments, not later, however, than twelve months after the date specified in such election. On the date or dates so fixed there shall become due and be payable in dollars or in sterling or in both dollars and sterling as the holder of this obligation shall determine the principal amount of this obligation specified in any such election, and in the instalments, if any, fixed by any such determination, together with accrued interest thereon to the date or dates of payment thereof. If said principal amount shall be paid by the Obligor in the manner and on the date fixed as herein provided, interest on such principal amount shall thereafter cease.

In order to enable the holder of this bond, until its payment in full, at its election, to prevent or curtail the export of gold from the United States of America, the obligor, from time to time, upon the request of the holder of this bond, delivered at the British Embassy in Washington, during such period or periods as shall be specified in any such request, will freely and publicly offer for sale in New York City demand sterling drafts on London at the equivalent of \$4.87½ United States gold of the present standard of weight and fineness to the gold pound sterling of the present standard of weight and fineness, and during such periods will sell such drafts to all bidders at said price and forthwith, upon the receipt of the proceeds of all such sales, will pay the same to the holder of this obligation, to be by it applied toward the payment in dollars of, first, the total amount then unpaid of deferred interest; and, second, the principal amount of this bond, and interest will be adjusted accordingly.

This obligation is one of a series of obligations of the Government of the United Kingdom of Great Britain and Ireland designated as its 5% convertible gold obligations, Series A, of like date and tenor, to an aggregate principal amount of \$577,500,000.

To provide for the partial amortization before maturity of the principal of the obligations of said Series A the obligor shall make the following payments termed sinking fund payments at the times hereinafter designated, to be applied upon the principal amount of the obligations of said Series A.

(a) On the fifteenth day of October, 1928, and on each and every interest payment date thereafter to and including the fifteenth day of April, 1947, an amount equal to the difference between two and one-half per centum ($2\frac{1}{2}\%$), computed upon the sum of \$577,500,000, and two and one-half per centum ($2\frac{1}{2}\%$), computed as of each date upon which such sinking fund payment is to be made upon the principal amount remaining unpaid upon each of said respective dates on the obligation of said Series A; and

(b) In addition to the payments provided in subdivision (a); on October 15, 1928, the sum of \$1,443,750; on April 15, 1929, the sum of \$1,443,750; on October 15, 1929, the sum of \$1,443,750; on April 15, 1930, the sum of \$1,443,750; on October 15, 1930, the sum of \$2,887,500; on April 15, 1931, the sum of \$2,887,500; on October 15, 1931, the sum of \$2,887,500; on April 15, 1932, the sum of \$2,887,500; on Oc-

tober 15, 1932, the sum of \$2,887,500; on April 15, 1933, the sum of \$2,887,500; on October 15, 1933, the sum of \$2,887,500; on April 15, 1934, the sum of \$2,887,500; on October 15, 1934, the sum of \$2,887,500; on April 15, 1935, the sum of \$2,887,500; on October 15, 1935, the sum of \$2,887,500; on April 15, 1936, the sum of \$2,887,500; on October 15, 1936, the sum of \$2,887,500; on April 15, 1937, the sum of \$2,887,500; on October 15, 1937, the sum of \$2,887,500; on April 15, 1938, the sum of \$2,887,500; on October 15, 1938, the sum of \$2,887,500; on April 15, 1939, the sum of \$2,887,500; on October 15, 1939, the sum of \$2,887,500; on April 15, 1940, the sum of \$2,887,500; on October 15, 1940, the sum of \$2,887,500; on April 15, 1941, the sum of \$2,887,500; on October 15, 1941, the sum of \$2,887,500; on April 15, 1942, the sum of \$2,887,500; on October 15, 1942, the sum of \$2,887,500; on April 15, 1943, the sum of \$2,887,500; on October 15, 1943, the sum of \$2,887,500; on April 15, 1944, the sum of \$2,887,500; on October 15, 1944, the sum of \$2,887,500; on April 15, 1945, the sum of \$2,887,500; on October 15, 1945, the sum of \$2,887,500; on April 15, 1946, the sum of \$2,887,500; on October 15, 1946, the sum of \$2,887,500; and on April 15, 1947, the sum of \$2,887,500.

The aforesaid sinking fund payments shall be made in gold coin of the United States of the present standard of weight and fineness at the Treasury of the United States in the city of Washington or at the Subtreasury of the United States in the city of New York, or, at the option of the holder hereof, at the Bank of England in the city of London, England, in pounds sterling of Great Britain at the fixed rate of exchange of dollars gold of the present standard of weight and fineness 4.8665 to the gold pound sterling of the present standard of weight and fineness. Appropriate notation will be made on the obligations of said Series A of all payments made on account of the principal thereof.

The Obligor, not less than three days before there shall become payable on this obligation any amount for principal and/or interest, current and/or deferred, and whether as sinking fund payment or through election of redemption or otherwise (except amounts required to be paid on account of this obligation resulting from the sale of demand sterling drafts on London) for the purpose of making such payments, will deposit the amounts required therefor at the Treasury of the United States in the city of Washington or at the subtreasury of the United States in the city of New York.

If and whenever any of the bonds of the United States issued under authority of the Act of Congress known as the First Liberty Bond Act, or any bonds issued in conversion of any said bonds, shall be converted into other bonds of the United States bearing a higher rate of interest than four and one-half per centum ($4\frac{1}{2}\%$) per annum, then and in every such event a proportionate principal amount of the obligations of said Series A shall be by the obligor converted par for par at the Treasury of the United States in the City of Washington into obligations bearing interest at a rate exceeding that previously borne by the obligations of said Series A by the same amount as the interest rate of the bonds of the United States issued upon such conversion exceed the interest rate of four and one-half per centum ($4\frac{1}{2}\%$), but not less than the highest rate of interest borne by such bonds of the United States, and in other respects iden-

tical with this bond. Every such conversion shall be made as of the date when the bonds of the United States were converted into bonds bearing such higher rate of interest, and interest will be adjusted accordingly.

So long as this obligation remains the property of the Government of the United States of America, any notice, request, election, or consent under the hand of the Secretary of the Treasury of the United States shall be deemed and taken as the notice, request, election, or consent of the holder of this obligation, and shall be sufficient, if delivered at the British Embassy, Washington, and any notice, request, or election from or by the obligor shall be delivered to the Secretary of the Treasury at the United States Treasury in Washington.

This obligation bears date April 15, 1919.

For the Government of the Kingdom of Great Britain and Ireland.

WADSWORTH EXHIBIT No. 7.

(Draft of May 10.)

Schedule 1.

The Government of the United Kingdom of Great Britain and Ireland 5 per cent convertible gold obligation, bearing date April 15, 1919.

Principal amount \$1,467,500,000. Series E.

The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed the obligor), for value received, promises to pay to the Government of the United States of America, or assigns, the sum of one billion four hundred sixty-seven million five hundred thousand (\$1,467,500,000) dollars on the fifteenth day of October, 1938, and to pay interest on said principal amount at the rate of five per centum (5%) per annum from the fifteenth day of April, 1919, at the times and otherwise as hereinafter provided. The payment of interest accruing on this obligation up to the fifteenth day of April, 1922, is postponed without compounding interest, and, save, except, and to the extent hereafter provided, no interest upon this obligation shall be payable prior to the fifteenth day of October, 1922. The interest accruing during said three-year period is hereinafter termed the deferred interest.

On the 15th day of October, 1922, and on each and every 15th day of April and 15th day of October thereafter during the life of this obligation (said dates being designated as the interest-paying dates), a semiannual installment of interest shall become due and payable on this obligation equal to $2\frac{1}{2}$ per cent of the principal thereof. The deferred interest, aggregating 15 per cent of the principal of this obligation shall become due and payable as follows: Installments of one-quarter of 1 per cent of the principal amount of this obligation on each and every of the interest payment dates from the 15th day of October, 1922, to the 15th day of April, 1924,

both dates inclusive; of one-half of 1 per cent of the principal amount of this obligation on each and every of the interest payment dates from the 15th day of October, 1924, to the 15th day of April, 1926, both dates inclusive; and of three-quarters of 1 per cent of the principal amount of this obligation on each and every of the interest-payment dates from the 15th day of October, 1926, to the 15th day of April, 1934, both dates inclusive: Provided, however, that if for any 30-day period prior to the payment of all of the said installments of deferred interest the average dollar buying cable rate for sterling in New York, as fixed by the Federal Reserve Bank of New York City at noon each day, shall equal or be in excess of \$4.84 United States gold of the present standard of weight and fineness to the gold pound sterling of the present standard of weight and fineness, then there shall become due and payable on the 15th day of the next succeeding calendar month the total amount remaining unpaid of the deferred interest which has accrued up to the date so fixed for payment, and if any such payment shall so become due prior to the 15th day of April, 1922, then and in that event the remaining deferred interest shall be and become due up to and be payable upon each and every subsequent 15th day of April and 15th day of October during said 3-year period.

Both principal and interest of this obligation will be paid in gold coin of the United States of America, of the present standard of weight and fineness at the Treasury of the United States in the city of Washington, or at the Sub-Treasury of the United States in the city of New York, or, at the option of the holder hereof, at the Bank of England in the city of London, England, in pounds sterling of Great Britain, at the fixed rate of exchange of dollars gold of the present standard of weight and fineness 4.8665 to the gold pound sterling of the present standard of weight and fineness.

The principal and interest of this obligation will be paid without deduction for, and shall be exempt from, any and all taxation, present or future, imposed by authority of the obligor or its possessions or by any political or local taxing authority within the British Empire whenever, so long as and to the extent that the beneficial ownership of this obligation is in (A) the Government of the United States or (B) a person or association neither domiciled nor ordinarily resident in the United Kingdom of Great Britain and Ireland, or (C) a corporation not organized under the laws of the United Kingdom of Great Britain and Ireland.

From time to time on or after the 15th day of April, 1924, at the request of the holder of this obligation, the obligor, at the United States Treasury, Washington, will convert all or any part of the principal amount of this obligation into:

(1) An equal principal amount of engraved obligations bearing interest at the same rate as the principal amount converted, and substantially in the form indicated in Exhibit A, hereto attached, payable to bearer and negotiable by delivery, with interest coupons attached, in denominations of \$50, \$100, \$500, and \$1,000, or registered as to principal and interest and in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000; and/or

(2) An equivalent principal amount, at the fixed rate of exchange of \$4.8665 to the pound sterling, of engraved obligations bearing

interest at the same rate as the principal amount converted, and substantially in the form indicated in Exhibit B, hereto attached, payable to bearer and negotiable by delivery, with interest coupons attached, in denominations of 100 pounds, 500 pounds, 1,000 pounds, and 5,000 pounds, or registered as to principal and interest and in denominations of 50 pounds, 100 pounds, 500 pounds, 1,000 pounds, 10,000 pounds, and 50,000 pounds.

At the option of the holder of this obligation, to be exercised by such holder at the time of the making of each request for conversion, the obligations into which at any time the principal of this obligation, or any part thereof, shall be so converted may carry the deferred interest not theretofore paid, and/or participation in the sinking fund payments payable as hereinafter provided; otherwise, such deferred interest and/or such sinking fund payments shall remain payable upon and in accordance with the terms of this obligation, notwithstanding any such conversion.

Upon any such conversion notation shall be made on this obligation that the principal amount thereof has been reduced, as of the date from which the obligations issued on such conversion shall bear interest, by an amount equal to the aggregate principal amount of obligations payable in dollars and equivalent at the rate aforesaid to the aggregate principal amount of obligations payable in sterling money issued upon such conversion; and appropriate notation shall also be made on this obligation to indicate whether the deferred interest remaining unpaid at the time of such conversion, and/or participation in the sinking fund payments payable as hereinafter provided are carried by the obligations received upon any such conversion or remain payable in accordance with the terms of this obligation. In case the principal amount of this obligation, or any part thereof, shall be converted into obligations substantially in the form indicated in Exhibit B, hereto attached, the obligor, forthwith and as often as any such conversion shall be made, will cause to be promulgated all such rules, regulations and orders as are usual and requisite to enable the bonds into which such conversion shall be made to be sold and dealt in in Great Britain and will use its good offices to secure that said bonds shall be listed on the London Stock Exchange.

The obligor, however, in lieu of making any conversion so requested, by giving notice of its election so to do within 10 days of the making of such request for conversion, may, in the manner hereafter provided, pay and redeem a principal amount of this obligation equal to the aggregate of the principal of the obligations called for by such request for conversion. After the payment in full of the deferred interest, the obligor, at its option, by giving notice of its election so to do, may, in the manner hereafter provided, pay and redeem the principal amount of this obligation, or any part thereof, unless and except to the extent that if said principal amount has been specified in any such request for conversion made prior to the giving of notice of such election of payment and redemption. Written notice of any such election by the obligor shall be delivered to the holder of this obligation and shall specify a date for such redemption and payment not later than 6 months from the date of such delivery. Within 20 days after the receipt

of any such notice of election, the holder of this obligation may, by notice to the obligor, determine upon and fix any date or dates for such redemption and payment, at one time or in installments, not later, however, than 12 months after the date specified in such election.

On the date or dates so fixed, at the option of the holder of this obligation, there shall become due and be payable, and the obligor shall have the right to pay and redeem, the principal amount of this obligation specified in any such election, and in the installments, if any, fixed by any such determination, together with accrued interest thereon to the date or dates of payment thereof, including all deferred interest upon such principal amount not theretofore paid; provided, however, in case the holder of this obligation shall within 60 days after the receipt of any such notice of election give notice to the obligor of its determination to receive all or any part of the sums payable upon any such redemption in Liberty bonds of the United States, then and in that event the obligor, to the extent so specified, shall be entitled only and shall be obligated to effect such payment and redemption in such Liberty bonds taken at par and accrued and unpaid interest. If said principal amount shall be paid by the obligor in the manner and on the date or dates fixed as herein provided, interest on such principal amount shall thereafter cease.

In order to enable the holder of this bond, until its payment in full, at its election to prevent or curtail the export of gold from the United States of America, the obligor, from time to time, upon the request of the holder of this bond delivered at the British Embassy in Washington, during such period or periods as shall be specified in any such request, will freely and publicly offer for sale in New York City demand sterling drafts on London at the equivalent of \$4.87½ United States gold of the present standard of weight and fineness to the gold pound sterling of the present standard of weight and fineness, and during such periods will sell such drafts to all bidders at said price, and forthwith, upon the receipt of the proceeds of all such sales, will pay the same to the holder of this obligation, to be by it applied toward the payment of, first, the total amount then unpaid of deferred interest, whether wholly or in part due or not yet due by the terms hereof; and, second, the principal amount of this bond, in dollars, and interest will be adjusted accordingly.

To provide for the partial amortization before maturity of the principal of this obligation the obligor shall make the following payments, termed sinking-fund payments, at the times hereinafter designated, to be applied upon the principal amount of this obligation.

(a) On the 15th day of October, 1928, and on each and every interest payment date thereafter, to and including the 15th day of April, 1938, an amount equal to the difference between 2½ per cent, computed upon the sum of \$1,467,500,000, and 2½ per cent, computed as of each date upon which such sinking-fund payment is to be made upon the principal amount of this obligation remaining outstanding and unpaid upon each of said respective dates; and

(b) In addition to the payments provided in subdivision (a) on October 15, 1928, the sum of \$3,668,750; on April 15, 1929, the sum of \$3,668,750; on October 15, 1929, the sum of \$3,668,750; on April

15, 1930, the sum of \$3,668,750; on October 15, 1930, the sum of \$7,337,500; on April 15, 1931, the sum of \$7,337,500; on October 15, 1931, the sum of \$7,337,500; on April 15, 1932, the sum of \$7,337,500; on October 15, 1932, the sum of \$7,337,500; on April 15, 1933, the sum of \$7,337,500; on October 15, 1933, the sum of \$7,337,500; on April 15, 1934, the sum of \$7,337,500; on October 15, 1934, the sum of \$7,337,500; on April 15, 1935, the sum of \$7,337,500; on October 15, 1935, the sum of \$7,337,500; on April 15, 1936, the sum of \$7,337,500; on October 15, 1937, the sum of \$7,337,500; on April 15, 1937, the sum of \$7,337,500; on October 15, 1937, the sum of \$7,337,500; and on April 15, 1938, the sum of \$7,337,500.

The aforesaid sinking-fund payments shall be made in gold coin of the United States of the present standard of weight and fineness at the Treasury of the United States in the city of Washington or at the Subtreasury of the United States in the city of New York, or, at the option of the holder hereof, at the Bank of England in the city of London, England, in gold pounds of Great Britain of the present standard of weight and fineness at the fixed rate of exchange of dollars gold 4.8665 to the gold pound sterling. Appropriate notation will be made on this obligation of all payments made on account of the principal thereof. No reduction in the principal amount of this obligation subsequent to April 15, 1922, shall in anywise affect or impair the obligation of the obligor to make payment of the full amount of the deferred interest as hereinabove provided, and notwithstanding any such payment on account of the principal amount the obligation of the obligor to make payment of the deferred interest as hereinabove provided shall remain in full force and effect.

The obligor, not less than three days before there shall become payable on this obligation any amount for principal and/or interest, current and/or deferred, and whether as sinking-fund payment or through election of redemption in lieu of conversion or otherwise (except amounts required to be paid on account of this obligation resulting from the sale of demand sterling drafts on London) for the purpose of making such payments, will deposit the amounts required therefor at the Treasury of the United States in the city of Washington or at the Subtreasury of the United States in the city of New York.

If and whenever any of the bonds of the United States issued under authority of the acts of Congress, known, respectively, as the second, third, and fourth Liberty bond acts, or any bonds issued in conversion of any said bonds shall be converted into other bonds of the United States bearing a higher rate of interest than $4\frac{1}{2}$ per cent per annum, then and in every such event a proportionate principal amount of this obligation shall be by the obligor converted par for par at the Treasury of the United States in the city of Washington into an obligation bearing interest at a rate exceeding that previously borne by this obligation by the same amount as the interest rate of the bonds of the United States issued upon such conversion exceed the interest rate of $4\frac{1}{2}$ per cent, but not less than the highest rate of interest borne by such bonds of the United States, and in other respects identical with this bond. Every such conversion shall be made as of the date when the bonds of the United States were converted into bonds bearing such higher rate of interest, and interest will be adjusted accordingly.

So long as this obligation remains the property of the Government of the United States of America, any notice, request, election, or consent under the hand of the Secretary of the Treasury of the United States shall be deemed and taken as the notice, request, election, or consent of the holder of this obligation, and shall be sufficient if delivered at the British Embassy, Washington; and any notice, request, or election to the Government of the United States shall be delivered to the Secretary of the Treasury at the United States Treasury in Washington.

This obligation bears date April 15, 1919.

For the Government of the Kingdom of Great Britain and Ireland -

EXHIBIT A.

(Form of coupon bond payable in dollars.)

\$-----

No. -----

The Government of the Kingdom of Great Britain and Ireland converted -- per cent gold bonds maturing October 15, 1938.

Series -----

The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed the obligor), for value received, promises to pay to bearer, or if this bond be registered then to the registered holder hereof, the sum of ----- dollars on the fifteenth day of October, 1938, and to pay interest on said principal sum from the fifteenth day of ----- 19--, at the rate of ---- per centum per annum, payable on the fifteenth day of ----- 19--, and semiannually thereafter on the fifteenth days of April and October in each year, but only upon the presentation and surrender of the coupons for such interest, hereto attached, as severally they mature. (In case the converted bonds of this series are to carry all or any part of the deferred interest mentioned in the original obligation, appropriate provisions dealing with such deferred interest will be inserted here.)

The principal and interest of this bond will be paid in gold coin of the United States of America of the standard of weight and fineness existing on the fifteenth day of April, 1919, at the office or agency which the obligor will establish and maintain for that purpose, until the payment of all bonds of this series, in the Borough of Manhattan, city of New York, N. Y., or, at the option of the holder of this bond, said principal and interest will be paid in the city of London, England, in gold pounds sterling of Great Britain of the standard of weight and fineness existing on the fifteenth day of April, 1919, at the fixed rate of exchange of \$4.86 $\frac{1}{2}$ to the gold pound sterling. The principal and interest of this bond will be paid without deduction for and shall be exempt from any and all taxation, present or future, imposed by authority of the obligor or its possessions, or by any political or local taxing authority within the British Empire.

This bond is one of a series of Converted ----- per cent gold bonds of the obligor maturing October 15, 1938, Series -----, aggregating \$----- in principal amount, bearing distinctive serial numbers and consisting of coupon bonds in the denominations of \$50, \$100, \$500, and \$1,000, and of fully registered bonds without coupons in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000. Under such reasonable regulations as the obligor shall prescribe and at its office or agency aforesaid, bonds of this series of different authorized denominations, and as well coupon and registered bonds, will be interchangeable, in equal aggregate principal amounts, upon payment, if the obligor shall require, of a charge not exceeding \$1, for each new bond issued. This bond may be registered as to principal in the name of the holder upon presentation of the same for such purpose at the aforesaid office or agency of the obligor for notation of such registration thereon; after such registration no transfer shall be valid unless made by the registered owner in person or by his duly authorized attorney and similarly noted hereon, but transferability by delivery may be restored by transfer to bearer and like notation thereof hereon; no such registration shall affect the transferability of the annexed coupons, which will continue to be payable to bearer.

(In case the converted bonds of this series are to participate in the benefit of all or any part of the sinking fund payments mentioned in the original obligation appropriate provisions dealing with such sinking fund payments will be inserted here.)

For the Government of the United Kingdom of Great Britain and Ireland:

(Form of Coupon.)

\$-----

No. -----

On ----- 15, 19--, the Government of the United Kingdom of Great Britain and Ireland will pay to bearer, at its office or agency in the city of New York, the sum of ----- dollars, in United States gold coin, or, at the option of the holder, in the city of London, England, in gold pounds sterling of Great Britain, at the fixed rate of \$4.86½ to the pound sterling, being six months interest then due on its converted ----- per cent gold bond maturing October 15, 1938, series numbered -----

For the Government of the United Kingdom of Great Britain and Ireland:

(Form of Registered Bond payable in Dollars.)

\$-----

No. -----

The Government of the Kingdom of Great Britain and Ireland.

Converted ----- per cent gold bonds maturing October 15, 1938.

Series -----

The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed the obligor), for value received, promises to pay to -----, or registered assigns, the sum of ----- dollars on the fifteenth day of October, 1938, and to pay interest on said principal sum from the fifteenth day of October or the fifteenth day of April, next preceding the date of this bond, or if this bond be dated as of any October fifteenth or April fifteenth

then from the date of this bond, at the rate of ----- per centum per annum, payable semiannually on the fifteenth days of April and October in each year. (In case the converted bonds of this series are to carry all or any part of the deferred interest mentioned in the original obligation, appropriate provisions dealing with such deferred interest will be inserted here.)

The principal and interest of this bond will be paid in gold coin of the United States of America of the standard of weight and fineness existing on the 15th day of April, 1919, at the office or agency which the Obligor will establish and maintain for that purpose, until the payment of all bonds of this series, in the Borough of Manhattan, city of New York, N. Y., or, at the option of the holder of this bond, said principal and interest will be paid in the city of London, England, in gold pounds sterling of Great Britain of the standard of weight and fineness existing on the 15th day of April, 1919, at the fixed rate of exchange of \$4.86 $\frac{1}{2}$ to the pound sterling. The principal and interest of this bond will be paid without deduction for and shall be exempt from any and all taxation, present or future, imposed by authority of the obligor or its possessions, or by any political or local taxing authority within the British Empire.

This bond is one of a series of converted ----- per cent gold bonds of the obligor maturing October 15, 1938, series, aggregating \$----- in principal amount, bearing distinctive serial numbers and consisting of coupon bonds in the denominations of \$50, \$100, \$500, and \$1,000 and of fully registered bonds without coupons in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000. Under such reasonable regulations as the Obligor shall prescribe and at its office or agency aforesaid, bonds of this series of different authorized denominations and as well coupon and registered bonds, will be interchangeable, in equal aggregate principal amounts, upon payment, if the Obligor shall require, of a charge not exceeding \$1 for each new bond issued. This bond is transferable by the registered holder in person or by attorney duly authorized, upon the surrender of this bond at the aforesaid office or agency of the Obligor and a new registered bond, or bonds of like aggregate principal amount and carrying interest from the same date as that from which the registered bond surrendered carried interest, will be issued to the transferee in exchange therefor upon payment, if the obligor shall require, of a charge not exceeding \$1 for each new bond issued.

(In case the converted bonds of this series are to participate in the benefit of all or any part of the sinking fund payments mentioned in the Original Obligation, appropriate provisions dealing with such sinking fund payments will be inserted here.)

Dated -----, 19---

For the Government of the United Kingdom of Great Britain and Ireland.

[Draft of May 10.]

SCHEDULE 2.

The Government of the United Kingdom of Great Britain and Ireland 5 per cent convertible gold obligation bearing date April 15, 1919, maturing October 15, 1938. Principal amount \$1,467,500,000. Series E.

The Government of the United Kingdom of Great Britain and Ireland (hereinafter termed the obligor), for value received, promises to pay to the Government of the United States of America, or assigns, the sum of one billion four hundred sixty-seven million five hundred thousand dollars (\$1,467,500,000) on the fifteenth day of October, 1938, and to pay interest on said principal amount at the rate of five per centum (5%) per annum from the fifteenth day of April, 1919, at the times and otherwise as hereinafter provided. The payment of interest accruing on this obligation up to the fifteenth day of April, 1922, is postponed without compounding interest and, save except and to the extent hereafter provided, no interest upon this obligation shall be payable prior to the fifteenth day of October, 1922. The interest accruing during said three-year period is hereinafter termed the deferred interest. On the fifteenth day of October, 1922, and on each and every fifteenth day of April and fifteenth day of October thereafter during the life of this obligation (said dates being designated as the interest-payment dates), a semiannual installment of interest shall become due and payable on this obligation equal to two and one-half per centum ($2\frac{1}{2}\%$) of the principal thereof.

The deferred interest, aggregating fifteen per centum (15%) of the principal of this obligation shall become due and payable as follows: Installments of one-quarter of one per centum ($\frac{1}{4}\%$) of the principal amount of this obligation on each and every of the interest-payment dates from the fifteenth day of October, 1922, to the fifteenth day of April, 1924, both dates inclusive; of one-half of one per centum ($\frac{1}{2}\%$) of the principal amount of this obligation on each and every of the interest-payment dates from the fifteenth day of October, 1924, to the fifteenth day of April, 1926, both dates inclusive; and of three-quarters of one per centum ($\frac{3}{4}\%$) of the principal amount of this obligation on each and every of the interest-payment dates from the fifteenth day of October, 1926, to the fifteenth day of April, 1934, both dates inclusive: Provided, however, that if for any thirty-day period prior to the payment of all of the said installments of deferred interest the average dollar-buying cable rate for sterling in New York, as fixed by the Federal Reserve Bank of New York City at noon each business day, shall equal or be in excess of \$4.84 United States gold of the present standard of weight and fineness to the gold pound sterling of the present standard of weight and fineness, then there shall become due and payable on the fifteenth day of the next succeeding calendar month the total amount remaining unpaid of the deferred interest which has accrued up to the date so fixed for payment, and if any such payment shall so become due prior to the fifteenth day of April, 1922, then and in that event the remaining deferred interest shall be and become due up to and be payable upon each and every fifteenth day of April and fifteenth

day of October during said three-year period subsequent to the date upon which any such payment shall so become due.

Both principal and interest of this obligation will be paid in gold coin of the United States of America, of the present standard of weight and fineness, at the Treasury of the United States in the city of Washington or at the Subtreasury of the United States in the city of New York, or, at the option of the holder hereof, at the Bank of England in the city of London, England, in pounds sterling of Great Britain, at the fixed rate of exchange of dollars gold of the present standard of weight and fineness 4.8665 to the gold pound sterling of the present standard of weight and fineness.

The principal and interest of this obligation will be paid without deduction for, and shall be exempt from, any and all taxation, present or future, imposed by authority of the obligor or its possessions or by any political or local taxing authority within the British Empire whenever, so long as and to the extent that the beneficial ownership of this obligation is in (A) the Government of the United States, or (B) a person or association neither domiciled nor ordinarily resident in the United Kingdom of Great Britain and Ireland, or (C) a corporation not organized under the laws of the United Kingdom of Great Britain and Ireland.

From time to time on or after the fifteenth day of April, 1924, at the request of the holder of this obligation, the obligor, at the United States Treasury, Washington, will convert all or any part of the principal amount of this obligation into—

(1) An equal principal amount of engraved obligations bearing interest at the same rate as the principal amount converted, and substantially in the form indicated in Exhibit A, hereto attached, payable to bearer and negotiable by delivery, with interest coupons attached, in denominations of \$50, \$100, \$500 and \$1,000, or registered as to principal and interest and in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000 and \$100,000; and/or

(2) An equivalent principal amount, at the fixed rate of exchange of dollars gold of the present standard of weight and fineness 4.8665 to the gold pound sterling of the present standard of weight and fineness, of engraved obligations bearing interest at the same rate as the principal amount converted, and substantially in the form indicated in Exhibit B, hereto attached, payable to bearer and negotiable by delivery, with interest coupons attached, in denominations of 100 pounds, 500 pounds, 1,000 pounds, and 5,000 pounds, or registered as to principal and interest and in denominations of 50 pounds, 100 pounds, 500 pounds, 1,000 pounds, 10,000 pounds and 50,000 pounds.

At the option of the holder of this obligation, to be exercised by such holder at the time of the making of each request for conversion, the obligations into which at any time the principal of this obligation, or any part thereof, shall be so converted may carry the deferred interest not theretofore paid, and/or participation in the sinking fund payments payable as hereinafter provided; otherwise such deferred interest and/or such sinking fund payments shall remain payable upon and in accordance with the terms of this obligation, notwithstanding any such conversion.

Upon any such conversion notation shall be made on this obligation that the principal amount thereof has been reduced, as of the date from which the obligations issued on such conversion shall bear interest, by an amount equal to the aggregate principal amount of obligations payable in dollars and equivalent at the rate aforesaid to the aggregate principal amount of obligations payable in sterling money issued upon such conversion; and appropriate notation shall also be made on this obligation to indicate whether the deferred interest remaining unpaid at the time of such conversion and/or participation in the sinking fund payments payable as hereinafter provided are carried by the obligations received upon any such conversion or remain payable upon and in accordance with the terms of this obligation. In case the principal amount of this obligation, or any part thereof, shall be converted into obligations substantially in the form indicated in Exhibit B, hereto attached, the obligor, forthwith and as often as any such conversion shall be made, will cause to be promulgated all such rules, regulations, and orders as are usual and requisite to enable the bonds into which such conversion shall be made to be sold and dealt in in the United Kingdom of Great Britain and Ireland and will use its good offices to secure that said bonds shall be listed on the London Stock Exchange.

The obligor, however, in lieu of making any conversion so requested, by giving notice of its election so to do within 10 days of the making of such request for conversion, may, in the manner hereafter provided, pay and redeem a principal amount of this obligation equal to the aggregate of the principal of the obligations called for by such request for conversion. After the payment in full of the deferred interest, the obligor, at its option, by giving notice of its election so to do, may, in the manner hereafter provided, pay and redeem the principal amount of this obligation, or any part thereof (but if a part not in amounts less than \$100,000,000 or its equivalent) unless and except to the extent that said principal amount has been specified in any such request for conversion made prior to the giving of notice of such election of payment and redemption. Written notice of any such election by the obligor shall be delivered to the holder of this obligation and shall specify an interest payment date for such redemption and payment not less than three months nor more than six months subsequent to the date of delivery of such notice of election.

Within 20 days after the receipt of any such notice of election, the holder of this obligation may, by notice to the obligor, determine upon and fix any date or dates for such redemption and payment, at one time or in installments, not later, however, than 12 months after the date specified in such election. On the date or dates so fixed, at the option of the holder of this obligation, there shall become due and be payable, and the obligor shall have the right to pay and redeem, the principal amount of this obligation specified in any such election, and in the installments, if any, fixed by any such determination, together with accrued interest thereon to the date or dates of payment thereof, including all deferred interest upon such principal amount not therefore paid; provided, however, in case the holder of this obligation shall within 60 days after the receipt of

any such notice of election give notice to the obligor of its determination to receive all or any part of the sums payable upon any such redemption in Liberty bonds of the United States, then and in that event the obligor, to the extent so specified, shall be entitled only and shall be obligated to effect such payment and redemption in such Liberty bonds taken at par and accrued and unpaid interest. If said principal amount shall be paid by the obligor in the manner and on the date or dates fixed as herein provided, interest on such principal amount shall thereafter cease.

In order to enable the holder of this bond, until its payment in full, at its election to prevent or curtail the export of gold from the United States of America, the obligor, from time to time, upon the request of the holder of this bond delivered at the British Embassy in Washington, during such period or periods as shall be specified in any such request, will freely and publicly offer for sale in New York City demand sterling drafts on London at the equivalent of \$4.87½ United States gold of the present standard of weight and fineness to the gold pound sterling of the present standard of weight and fineness, and during such periods will sell such drafts to all bidders at said price and forthwith, upon the receipt of the proceeds of all such sales, will pay the same to the holder of this obligation, to be by it applied towards the payment in dollars of first, the total amount then unpaid of deferred interest, and, second, the principal amount of this bond, and interest will be adjusted accordingly.

To provide for the partial amortization before maturity of the principal of this obligation the obligor shall make the following payments termed sinking fund payments at the times hereinafter designated, to be applied upon the principal amount of this obligation.

(a) On the 15th day of October, 1928, and on each and every interest payment date thereafter to and including the 15th day of April, 1938, an amount equal to the difference between 2½ per cent, computed upon the sum of \$1,467,500,000, and 2½ per cent, computed as of each date upon which such sinking fund payment is to be made upon the principal amount of this obligation remaining outstanding and unpaid upon each of said respective dates; and

(b) In addition to the payments provided in subdivision (a) on October 15, 1928, the sum of \$3,668,750; on April 15, 1929, the sum of \$3,668,750; on October 15, 1929, the sum of \$3,668,750; on April 15, 1930, the sum of \$3,668,750; on October 15, 1930, the sum of \$7,337,500; on April 15, 1931, the sum of \$7,337,500; on October 15, 1931, the sum of \$7,337,500; on April 15, 1932, the sum of \$7,337,500; on October 15, 1932, the sum of \$7,337,500; on April 15, 1933, the sum of \$7,337,500; on October 15, 1933, the sum of \$7,337,500; on April 15, 1934, the sum of \$7,337,500; on October 15, 1934, the sum of \$7,337,500; on April 15, 1935, the sum of \$7,337,500; on October 15, 1935, the sum of \$7,337,500; on April 15, 1936, the sum of \$7,337,500; on October 15, 1936, the sum of \$7,337,500; on April 15, 1937, the sum of \$7,337,500; on October 15, 1937, the sum of \$7,337,500; and on April 15, 1938, the sum of \$7,337,500.

The aforesaid sinking-fund payments shall be made in gold coin of the United States of the present standard of weight and fineness at the Treasury of the United States in the city of Washington or at

the Subtreasury of the United States in the city of New York, or, at the option of the holder hereof at the Bank of England in the city of London, England, in gold pounds sterling of Great Britain at the fixed rate of exchange of dollars gold of the present standard of weight and fineness 4.8665 to the gold pound sterling of the present standard of weight and fineness. Appropriate notation will be made on this obligation of all payments made on account of the principal thereof. No reduction in the principal amount of this obligation shall in any wise affect or impair the obligation of the obligor to make payment of the full amount of the deferred interest as hereinbefore provided, and notwithstanding any such payment on account of the principal amount the obligation of the obligor to make payment of the deferred interest as hereinbefore provided shall remain in full force and effect.

The obligor, not less than three days before there shall become payable on this obligation any amount for principal and/or interest, current and/or deferred, and whether as sinking fund payment or through election of redemption or otherwise (except amounts required to be paid on account of this obligation resulting from the sale of demand sterling drafts on London) for the purpose of making such payments, will deposit the amounts required therefor at the Treasury of the United States in the city of Washington, or at the Subtreasury of the United States in the city of New York.

If and whenever any of the bonds of the United States issued under authority of the acts of Congress known, respectively, as the second, third, and fourth Liberty bond acts, or any bonds issued in conversion of any said bonds, shall be converted into other bonds of the United States bearing a higher rate of interest than $4\frac{1}{2}$ per cent per annum, then and in every such event a proportionate principal amount of this obligation shall be by the obligor converted par for par at the Treasury of the United States in the city of Washington, into an obligation bearing interest at a rate exceeding that previously borne by this obligation by the same amount as the interest rate of the bonds of the United States issued upon such conversion exceed the interest rate of $4\frac{1}{2}$ per cent, but not less than the highest rate of interest borne by such bonds of the United States, and in other respects identical with this bond. Every such conversion shall be made as of the date when the bonds of the United States were converted into bonds bearing such higher rate of interest, and interest will be adjusted accordingly.

So long as this obligation remains the property of the Government of the United States of America, any notice, request, election or consent under the hand of the Secretary of the Treasury of the United States shall be deemed and taken as the notice, request, election or consent of the holder of this obligation, and shall be sufficient if delivered at the British Embassy, Washington; and any notice, request, or election from or by the obligor shall be delivered to the Secretary of the Treasury at the United States Treasury in Washington.

This obligation bears date April 15, 1919.

For the Government of the Kingdom of Great Britain and Ireland.

WADSWORTH EXHIBIT No. 8.

[Draft of May 18.]

Regarding claims by British Treasury for reimbursement in dollars for expenditures on behalf of France, Italy, Belgium, and C. R. B.

I.

(a) The claims of the British Treasury against France for dollar reimbursement for the year 1918-1919 are summarized as follows:

(1) Cereals.....	\$344, 641, 786. 44
(2) Sugar.....	58, 741, 487. 85
(3) Arbitrage.....	50, 708, 565. 75
(4) Meat.....	152, 119, 775. 32
(5) Freight and insurance.....	249, 536, 090. 69
(6) Ministry of munitions.....	98, 698, 381. 09
(7) Miscellaneous goods.....	53, 719, 842. 97
	<hr/> \$1,008, 165, 930. 11

(b) The United States Treasury is unwilling to make dollar advances for reimbursement purposes on the following items of this claim:

(1) Chinese ex-enemy vessels.....	\$126, 215. 32
(2) Sulphate of copper.....	14, 577, 851. 33
(3) Cotton.....	10, 660, 983. 37
(4) Miscellaneous.....	8, 349, 970. 00
(5) ‡ C. R. B. neutral vessels (\$10,059,672.54).....	3, 353, 224. 18
(6) ‡ neutral freights (\$67,789,034.98).....	22, 596, 344. 99
(7) ‡ requisitioned neutrals (\$90,385,379.97).....	30, 128, 459. 90
(8) ‡ disbursements in Chile (\$222,525.50).....	74, 175. 17
(9) ‡ losses on requisitioned neutrals (\$17,912,926.32).....	5, 970, 975. 44
(10) ‡ Norwegian insurance (\$56,145,553.95).....	18, 715, 184. 65
(11) ‡ nitrate of soda (\$9,902,268.76).....	3, 300, 756. 25
(12) ‡ Grangesberg iron (\$4,342,722.51).....	1, 447, 574. 17
(13) ‡ Icelandic fish (\$275,452.82).....	91, 817. 61
	<hr/> 119, 393, 532. 47

(c) Accordingly the total aggregate of claims against France which the United States Treasury is willing to recognize as proper basis for United States Treasury advances for dollar reimbursement purposes is.....

888, 772, 397. 64

(d) France has already paid the British Treasury for dollar reimbursement out of loans from United States Treasury.....

928, 000, 000. 00

(e) Making overpayment by France of.....

37, 227, 602. 36

II.

(a) The claims, exclusive of those for cereals, of the British Treasury against Italy for dollar reimbursement for the year 1918-19 are summarized as follows:

(1-2) Manila hemp.....	\$505, 422. 76
(3) Frozen meat.....	535, 871. 90
(4-5) Admiralty dollar claims.....	1, 362, 599. 29
(6) War office dollar claims.....	4, 614. 98
(7) Bacon and lard, ex S. S. <i>Brodholme</i>	746, 280. 84
(8) Bacon and hams, ex stores U. K.....	690, 576. 64
(9) Morgan's adjustment for final accts.....	320, 125. 21
(10) Ministry of Shipping U. S. A. dis- bursements.....	768, 968. 06

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS. 149

(11) Ministry of Munitions, général claims-----	\$14, 632, 956. 47
(12) Nitrocellulose -----	4, 265, 190. 42
(13) Six-inch shell -----	9, 268, 922. 00
(14) Miscellaneous further claims-----	3, 869, 386. 00

\$36, 970, 914. 57

(b) The United States Treasury is unwilling to make dollar advances for reimbursement purposes on items of the miscellaneous further claims aggregating-----

636, 975. 00

(c) Accordingly the total aggregate of claims against Italy which the United States Treasury is willing to recognize as proper basis for United States Treasury advances for dollar reimbursement purposes subject to deductions hereafter set forth is-----

36, 333, 939. 57

(d) But Italy is entitled to credit for the following items:

(1) Credit outstanding in Italy's favor-----	\$2, 272, 563. 67
(2) Shell steel balance on hand-----	269, 005. 67
(3) Overpayment on cereal shipments 1918-19-----	17, 097, 306. 32

19, 638, 875. 66

(e) Accordingly the net total for which United States Treasury is willing to recognize as proper basis for United States Treasury advances for dollar reimbursement purposes is-----

16, 695, 063. 91

(a) The claims of the British Treasury against Belgium for dollar reimbursement for expenditures on behalf of the Belgian Government in the year 1918-19, as set forth with Mr. G. O. May's report to the United States Treasury dated July 10, 1919, agreed to by Mr. B. P. Blackett's letter to Assistant Secretary of the Treasury Rathbone dated 1st December, 1919, aggregate-----

\$6, 504, 870. 23

Add claim for cargo S. S. Frankmere-----

644, 388. 81

7, 149, 259. 04

(b) The United States Treasury is unwilling to make dollar advances for reimbursement purposes on the following items of this claim:

(1) Nitro cellulose -----	\$923, 602. 80
(2) Nitrate of soda-----	302, 435. 98
(3) General orders-----	971, 686. 93

2, 197, 725. 71

(c) Accordingly the total aggregate of claims for which the United States Treasury is willing to recognize as proper basis for United States Treasury advances to the Belgian Government for purpose of dollar reimbursement for expenditures by Great Britain on behalf of the Belgian Government is-----

4, 951, 533. 33

IV.

(a) The claims of British Treasury against the Commission for Relief in Belgium for dollar reimbursement by the Belgian Government for expenditures in the year 1918-19 by Great Britain on behalf of the C. R. B. are summarized as follows:

(1) R. C. on W. S. claim-----	\$3, 612, 261. 81
(2) M. of F. for bacon and lard-----	1, 611, 545. 61
(3) Rations-----	3, 294, 253. 78
(4) Biscuits as rations-----	381, 252. 04
(5) Cotton, etc-----	573, 266. 88
(6) 1917, ministry of shipping-----	1, 724, 506. 75
(7) 1917, ministry of food-----	169, 853. 19

\$11, 366, 940. 06

(b) The United States Treasury is unwilling to make dollar advances for reimbursement purposes on the following items of this claim:

(1) Cotton goods, cotton, etc-----	\$573, 266. 88
(2) 1917 ministry of shipping-----	1, 724, 506. 75
(3) 1917 ministry of food-----	169, 853. 19

2, 467, 626. 82

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(c) Accordingly the total aggregate of claims against C. R. B. which the United States Treasury is willing to recognize as proper basis for United States Treasury advances to the Belgian Government for dollar reimbursement for expenditures by Great Britain on behalf subject to deductions hereafter set forth, is-----	\$8,899,313.24
(d) C. R. B. is entitled to credit for counterclaim against Great Britain for charter hire amounting to-----	2,167,052.80
(e) Net total of claims which United States Treasury is willing to recognize as proper basis for United States advances to the Belgian Government for purpose of dollar reimbursement for expenditures by Great Britain on behalf of C. R. B.-----	6,732,260.44

V.

The United States Treasury accordingly is prepared to make advances for dollar reimbursement purposes to the respective Governments upon their respective requests and against their respective duly executed obligations as follows:

(1) To Italy-----	\$16,695,063.91	
(2) To Belgium (for expenditures on behalf Belgian Govt.)-----	4,951,533.33	
(3) To Belgium (for expenditures on behalf C. R. B. if required by the C. R. B. to meet such claims)-----	6,732,260.44	23,378,857.88

VI.

Certain claims of the British Treasury against the Commission for Relief in Belgium, aggregating \$2,467,626.82 are to be paid by the C. R. B. from surplus funds in its possession.

VII.

The British Treasury will credit upon its respective claims for dollar reimbursement the amounts paid to the British Treasury by Italy, Belgium, and C. R. B. as contemplated by paragraphs V and VI. The British Treasury will forthwith pay to the Secretary of the United States Treasury the sum of \$6,381,117.86, and, in addition, forthwith upon the receipt of said respective amounts from Italy, Belgium, and the C. R. B., the British Treasury will pay the same to the Secretary of the United States Treasury, to be applied by him upon the obligations of the Government of France acquired and held by the Secretary of the United States Treasury by virtue of the authority of the Liberty Loan acts of the Congress of the United States subsequent to the First Liberty Loan act. Such sums shall be applied to pay the principal of obligations with accrued interest thereon to date of payment.

VIII.

(a) No further or other claims for dollar reimbursement shall be made by the British Treasury and the foregoing arrangement as between the United States Treasury and the British Treasury shall be deemed a final settlement and disposition of all claims for dollar reimbursement whether or not heretofore put forward.

(b) If upon any checking or recasting of the respective accounts between the British Treasury and France, Italy, Belgium and the Commission for Relief of Belgium, respectively, it should appear that any of Great Britain's claims for dollar reimbursement recognized by the United States Treasury as a basis for dollar reimbursement, or which has been included in the said claim for dollar reimbursement recognized by the C. R. B., are inaccurate, in that the correct amount has been exceeded by the claim as made and accepted in this arrangement, then the dollar amount of such excess, instead of being repaid to the debtor against whom the excessive claim was made or applied to any other claim held by the British Treasury against that debtor, shall be paid by the British Treasury to the Secretary of the Treasury to be by him applied towards the payment of obligations of such debtor acquired and held by the Secretary of the United States Treasury by virtue of the authority of the Liberty Loan Acts of the Congress of the United States subsequent to the

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS. 151

First Liberty Loan Act (in the case of the C. R. B. the application to be made on such obligations of the Government of Belgium).

WADSWORTH EXHIBIT No. 9.

National debts of certain countries.

[Figures taken from Paper No. IV, Public Finance, in connection with the International Financial Conference held at Brussels September, 1920, or from the latest official publications available.]

[000,000 omitted.]

Country.	Unit of currency.	Date.	Internal.	External.	Total.
Armenia ¹	Franc.....	First 5 months 1919.....	4.6	.....	4.6
Austria.....	Krone.....	Mar. 31, 1919.....	.....	.....	83,279.0
Belgium.....	Franc.....	Dec. 31, 1919.....	17,903.9	1,687.6	19,591.5
Cuba ¹	Peso.....	Aug. 31, 1918.....	30.7	52.9	83.6
Czechoslovakia.....	Krone.....	1919.....	6,300.0	3,025.0	9,325.0
Finland.....	F. mark.....	Dec. 31, 1920.....	.....	.....	1,972.6
France.....	Franc.....	Sept. 30, 1920.....	202,464.0	34,135.0	236,599.0
Germany.....	Mark.....	Mar. 31, 1920.....	194,000.0	3,000.0	197,000.0
Great Britain.....	£.....	Mar. 31, 1921.....	6,411.5	1,161.5	7,573.0
Greece.....	Drachma.....	Mar. 31, 1920.....	1,008.8	2,232.3	3,241.1
Hungary ¹	Krone.....	Jan. 1, 1921.....	.....	.....	54,442.9
Italy.....	Lira.....	Dec. 31, 1919.....	57,888.1	20,219.6	78,107.7
Latvia.....	Ruble.....	1919.....	129.1	107.9	237.0
Liberia.....	Dollar.....	Sept. 30, 1918.....	.....	.....	2.1
Lithuania ¹	Mark.....	.....	.....	.....	100.0
Poland.....	do.....	Dec. 31, 1919.....	.....	8,803.5	8,803.5
Rumania.....	Leu.....	do.....	.....	.....	9,000.0
Russia ¹	Ruble.....	Sept. 1, 1917.....	.....	.....	32,300.0
Serbs, Croats, and Slovenes.....	Leu.....	Jan. 1, 1914.....	.....	.....	14.3

¹ From unofficial sources.

WADSWORTH EXHIBIT No. 10.

Budget statements for 1919 or 1919-20 (or as noted) of certain countries.

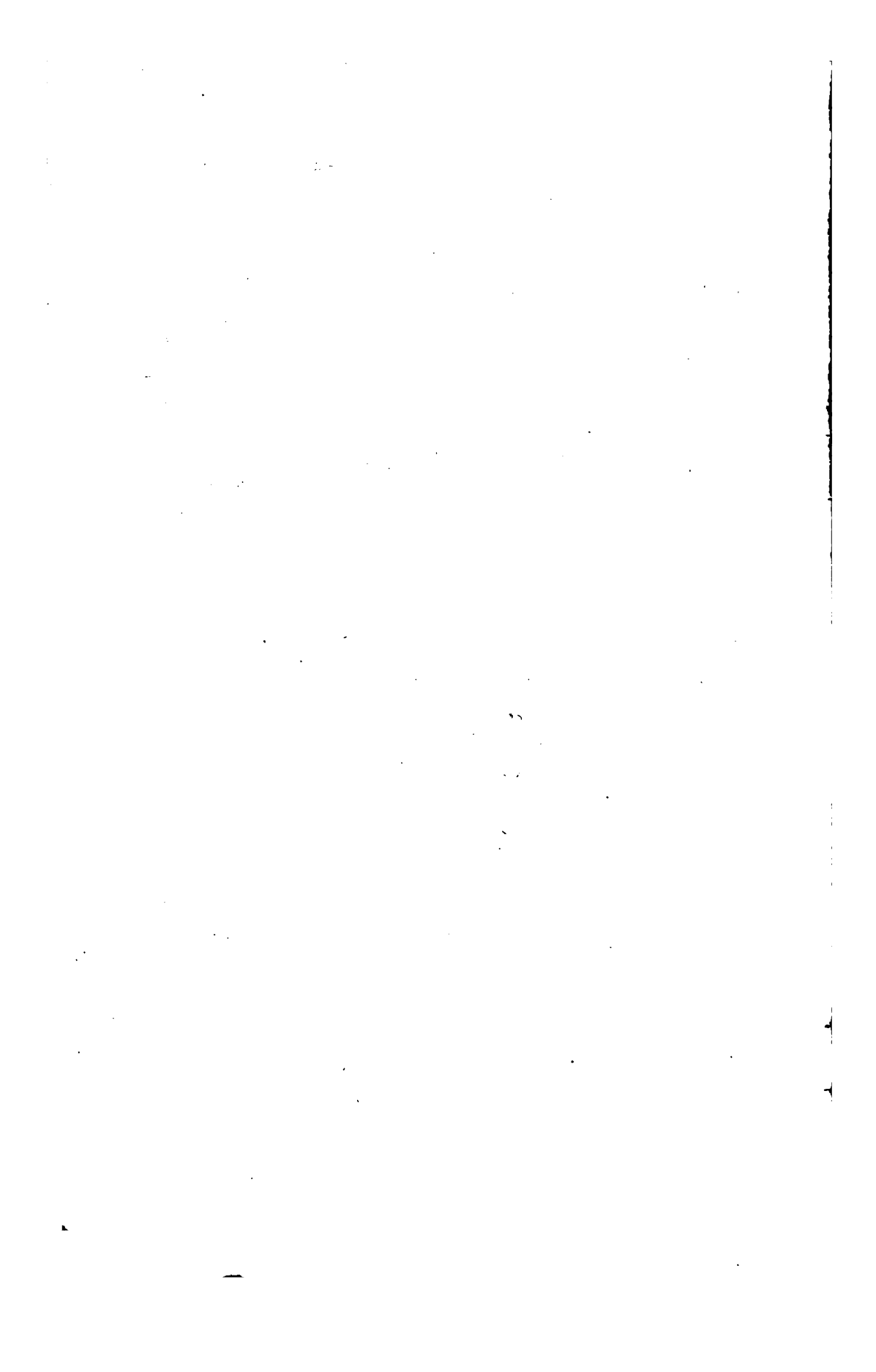
[Figures taken from Paper No. IV, Public Finance, in connection with the International Financial Conference held at Brussels, September, 1920, or from the latest official publications available.]

[000,000 omitted.]

Country.	Unit of currency.	Period covered.	Revenues.	Expenditures.	Surplus or deficiency of receipts.
Armenia ¹	Franc.....	First five months, 1919.....	1.9	6.5	- 4.6
Austria ¹	Krone.....	1919-20.....	6,295.0	16,873.0	- 10,578.0
Belgium.....	Franc.....	.....	2,888.4	8,774.7	- 5,886.3
Cuba ¹	£.....	1918-19.....	12.8	10.8	+ 2.0
Czechoslovakia.....	Krone.....	.....	3,708.7	8,615.3	- 4,906.6
Estonia ¹	Marks.....	Est. 1920.....	2,750.9	2,750.9	.....
Finland.....	F. marks.....	.....	1,056.4	1,566.5	- 510.1
France.....	Franc.....	.....	11,490.0	49,132.0	- 37,642.0
Germany.....	Marks.....	.....	17,164.0	62,160.0	- 44,996.0
Great Britain.....	£.....	1920-21.....	1,425.9	1,195.4	+ 230.5
Hungary ¹	Krone.....	Est. 1921.....	10,470.5	20,011.0	- 9,540.5
Italy.....	Lira.....	.....	9,820.0	32,375.0	- 22,555.0
Latvia.....	Ruble.....	.....	52.9	175.7	- 122.8
Liberia.....	Dollar.....	1917-18.....	.273	.256	+ .017
Lithuania.....	.....	.....	.....	.....	.....
Poland.....	Marks.....	.....	3,127.6	15,189.7	- 12,062.1
Rumania ¹	Leu.....	1916-17.....	645.7	645.7	.....
Russia ¹	Ruble.....	Est. 1919.....	48,000.0	230,000.0	- 182,000.0
Serbs, Croates, and Slovenes.....	Dinar.....	.....	715.0	1,588.0	- 843.0
Greece.....	Drachma.....	.....	469.7	1,650.8	- 1,181.1

¹ From unofficial sources.

a (The committee thereupon, at 12 o'clock noon, adjourned to meet at 10.30 o'clock a. m., Thursday, July 21, 1921.)



REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

THURSDAY, JULY 21, 1921.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 o'clock a. m. in Room 312, Senate Office Building, Washington, D. C., Senator Boise Penrose presiding.

Present: Senators Penrose (chairman), McCumber, Smoot, La Follette, Watson, Calder, Simmons, Reed, and Gerry.

The CHAIRMAN. The committee will come to order.

Mr. Heffelfinger is here, from the Treasury Department, an expert filing clerk, as I am informed. Is that correct, Mr. Heffelfinger?

Mr. HEFFELFINGER. I am a filing clerk.

The CHAIRMAN. And you are ready to respond to any question or inquiry concerning these documents relating to foreign loans. Pending the arrival of the Treasury officials, the Chair suggests that you proceed—

Senator WATSON. They are here now, Mr. Chairman.

(Hon. Andrew W. Mellon, Secretary of the Treasury, and Hon. Eliot Wadsworth, Assistant Secretary of the Treasury, entered the committee room.)

ADDITIONAL STATEMENT OF HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY.

The CHAIRMAN. Senator La Follette, will you proceed? Just before you proceed, however: Senator Curtis sends word that he will not be able to attend the meeting, but desires to be counted as making up a quorum and in favor of reporting the bill as soon as possible, favorably.

Now, Senator La Follette, will you kindly proceed?

Senator LA FOLLETTE. I have a printed copy of the exhibits presented by Mr. Wadsworth yesterday, in galley form. I have only been able to look at the first three or four galleys since receiving it.

First, I notice, Mr. Secretary, in your letter to Ambassador Geddes of May 11, that you refer to a conversation had with the Ambassador on the 2d of May. Will you state to the committee whether that conversation had reference to these loans?

Secretary MELLON. The conversation was on the subject of the loans.

Senator LA FOLLETTE. State what that conversation was, in substance.

Secretary MELLON. The preliminary—

Senator LA FOLLETTE. I will just withdraw that and ask you, Mr. Secretary, if that was the first conversation you had with Mr. Geddes or any representative of any of the debtor Governments regarding these foreign loans?

Secretary MELLON. That was the first, and has been the only one that I have had with any of the representatives.

Senator LA FOLLETTE. That was on May 2?

Secretary MELLON. On May 2.

Senator LA FOLLETTE. How long did that conversation last?

Secretary MELLON. It was held at the Department of State. There were present the Secretary of State and the ambassador, and I have forgotten the other gentleman's name who was with the ambassador, and Mr. Wadsworth, and myself.

Senator LA FOLLETTE. Up to that time had you exchanged, by note or otherwise, any communications with any of the representatives of the foreign Governments who are borrowers from this Government?

Secretary MELLON. I had not.

Senator LA FOLLETTE. So this was your first exchange of views on the subject of these loans?

Secretary MELLON. Yes.

Senator LA FOLLETTE. How long did this conversation last?

Secretary MELLON. It was but a short one. It did not develop into any matters of importance relating to the loans.

Senator LA FOLLETTE. Will you please state, Mr. Secretary, what brought about the conference at the office of the Secretary of State? State how it was arranged, in so far as you know.

Secretary MELLON. I had spoken before that to the Secretary of State about these obligations and asked him what the procedure should be to bring about some attention to the obligations, and he said—

Senator LA FOLLETTE. How early was it that you had that conversation with the Secretary of State after coming into the official position which you now hold?

Secretary MELLON. As I recall it, it was perhaps two or three weeks before the actual conference itself. It was shortly before. Mr. Hughes said that he would mention it to the ambassador, and that he supposed the natural way would be to arrange a conference, and then I received word that he had made this appointment for us to meet.

Senator LA FOLLETTE. Will you please state what took place at that conference, Mr. Secretary?

Secretary MELLON. It was a general discussion. I believe it was more largely on the whole financial situation of the European Governments, and we did not arrive at or discuss definitely the obligation of Great Britain itself. The ambassador requested the information in regard to the status of the claim against Great Britain and any information that could be given to him, and undertook—

Senator LA FOLLETTE. Did you judge from that, Mr. Secretary, that he was not in possession of all the facts with respect to the indebtedness of Great Britain to this country?

Secretary MELLON. I believe that he was familiar with the indebtedness, but I would infer that he was not familiar with the details nor with the details of the negotiations which had gone on, and therefore he wanted to be posted on the situation; that is, to have it brought up to date and know just what would be before us to be considered.

Senator LA FOLLETTE. The negotiations that had been theretofore carried on, if I remember your testimony and that of Mr. Wads-

worth, upon the part of the United States, had been largely conducted by Mr. Rathbone?

Secretary MELLON. Yes.

Senator LA FOLLETTE. And on the part of the English Government by Mr. Blackett?

Secretary MELLON. Yes.

Senator LA FOLLETTE. Was Mr. Blackett in this country, do you know, during the time that those negotiations were going on, or was he in England, and did Mr. Rathbone go there to confer with him?

Secretary MELLON. I really do not know. Perhaps Mr. Wadsworth would know.

Assistant Secretary WADSWORTH. Those negotiations were carried on in England and France.

Senator LA FOLLETTE. Not here. Mr. Blackett was not here at all?

Assistant Secretary WADSWORTH. Not during the negotiations.

Senator LA FOLLETTE. What, if anything, did Ambassador Geddes say in this first conversation about the extension of the time for payment of the indebtedness and interest?

Secretary MELLON. That, as I said, was not considered. We did not get to the consideration of the claim itself nor—

Senator LA FOLLETTE. I understood that you did not, in the way of detailed consideration, but I was inquiring if he made the statement that they should urge upon this Government the extension of the loan, the principal sum, either by exchange of securities the payment of which would be a long time deferred or otherwise, and also the nonpayment of the interest. Did you get as far as that at this first conversation?

Secretary MELLON. No. There was no request in that regard.

Senator LA FOLLETTE. About how long did this interview take?

Secretary MELLON. It was probably half an hour.

Senator LA FOLLETTE. Was there nothing said about deferring payment of either interest or principal?

Secretary MELLON. No; we did not go into that.

Senator LA FOLLETTE. You did not take that up at all?

Secretary MELLON. It was general conversation. I believe the subject of deferred interest was referred to in general conversation, not relating to England, but to a great many of these Governments. This was really not a negotiation at all. It was just a preliminary conference, and the matter of laying the basis for the further consideration, was made by the request for information which he made.

Senator LA FOLLETTE. Did you regard the conversation as important enough to make notes upon it?

Secretary MELLON. No.

Senator LA FOLLETTE. Or preserve any memorandum with reference to it?

Secretary MELLON. No.

Senator LA FOLLETTE. But at that conversation the request was made on the part of the British ambassador for memoranda and documentary data that would put him in possession of all the details of the previous negotiations?

Secretary MELLON. Yes.

Senator LA FOLLETTE. And it was pursuant to that that you transmitted to him this letter of May 11, then?

Secretary MELLON. Yes.

Senator LA FOLLETTE. In this letter you refer to inclosures or exhibits which are numbered from 1 to 8, inclusive, in the letter. Do you remember that?

Secretary MELLON. The letter will give that information.

Senator LA FOLLETTE. Yes; the letter shows that.

Mr. Stewart, will you lay a copy of this proof before Mr. Mellon so that he can follow it? I wanted to ask something about the memorandum which I do not understand, and I think it will be convenient to have it before him.

I notice, Mr. Secretary, in this letter that you refer to various memoranda which are transmitted to him along with the letter, numbered 1 to 8, inclusive, I direct your attention to paragraph No. 4 of the letter in which it is said:

4. Copy of draft of May 13 of instrument entitled "Schedule 1. The Government of the United Kingdom of Great Britain and Ireland 5 per cent convertible gold obligation bearing date April 15, 1919, maturing June 15, 1947. Principal amount, \$577,500,000."

Mr. Secretary, do you understand from the instrument entitled "Schedule 1" that there was a proposition on the part of the British Government to exchange Government obligations which Great Britain owned or to exchange Government bonds of the British Government for the obligations of that Government to us to the amount of \$577,500,000?

Secretary MELLON. As I understand it, in the negotiations there was a tentative proposition in relation to funding the obligation of Great Britain, that obligation merely being a due bill or an "I O U"; and under the authority that the Treasury had, under the Liberty loan acts from which the funds came which were advanced to Great Britain, there was worked out a proposition in regard to the different amounts, a funding proposition as authorized in the Liberty loan acts, and this is a part of that. You see, under the Liberty loan acts the amounts had to be treated separately. I do not know whether I explain it clearly, but that is merely what they were endeavoring to do.

Senator McCUMBER. I would like to understand what the Secretary means by that.

Secretary MELLON. The Treasury had authority, as you know, to accept from Great Britain bonds which were equivalent to the terms of our Liberty loan bonds, and this was in pursuance of that. What they were doing was tentatively to work out a plan of the refunding as authorized under the Liberty loan acts.

Senator McCUMBER. Was this a tentative proposition made by this Government to Great Britain?

Senator LA FOLLETTE. These exhibits show the negotiations that were under way and carried up nearly to the point of an agreement between representatives of this Government and a representative of the Government of Great Britain, and this memorandum to which I have directed the Secretary's attention, in paragraph 4 of his letter, covers one of the items concerning which there had been this negotiation.

Senator McCUMBER. Was that an item in the shape of a proposition or a submission by this country to Great Britain as to whether that should be the term, etc., of the bond?

Senator LA FOLLETTE. The Secretary's letter, which you heard read here yesterday, I suppose——

Secretary MELLON. Yes.

Senator LA FOLLETTE. States just how he regards the negotiations. They had not reached the point of an absolute agreement.

Secretary MELLON. What they were endeavoring to do was to work out, under the authority that is set forth in the Liberty loan acts, what Great Britain could do in the way of extending these loans. It was not in the shape of a binding proposition; it was merely what they planned. They had the authority to do that under the Liberty loan acts and they were endeavoring to work it out, and these are the memoranda on the subject which were sent to the ambassador so he would be posted. All of this is much better summarized in the report of Secretary Houston to Congress. You will find a table there of what they were endeavoring to arrive at.

Senator LA FOLLETTE. You understand, then, that that memorandum referred to in paragraph 4 suggested an exchange of securities that were provided for in the legislation of Congress?

Secretary MELLON. Yes.

Senator LA FOLLETTE. Do you understand that all of the other memoranda which recorded the development of this negotiation between these representatives are strictly in accord with the legislation of Congress?

Secretary MELLON. I believe so, entirely.

Senator LA FOLLETTE. Then you think, do you, that under that legislation they could have gone to the extent of completing this transaction?

Secretary MELLON. Oh, yes.

Senator LA FOLLETTE. Without coming to Congress for any further authority?

Secretary MELLON. Yes.

Senator LA FOLLETTE. The negotiations provided for an exchange of securities that would extend to some of these obligations, the payment of them, for 25 years, did they not?

Secretary MELLON. 1947, was it not? Yes; up until June 15, 1947.

Senator LA FOLLETTE. Even for the full amount of the British obligation to this Government?

Secretary MELLON. Oh, no; that was only the portion that was under that particular Liberty loan act. The reason for asking Congress for authority now is——

Senator LA FOLLETTE. That you want to travel outside of that?

Secretary MELLON. Yes; because it is all split up. You can not make a good job of it. You will have a lot of different kinds of obligations from Great Britain, which is not desirable. But all they could do was to work under the authority that they had.

Senator LA FOLLETTE. Do you understand that the \$577,500,000 is the full amount the payment of which could be deferred under the legislation of Congress?

Secretary MELLON. I presume a part.

Senator LA FOLLETTE. To that period of time?

Secretary MELLON. I have not gone into that.

Senator LA FOLLETTE. I notice further along in the memoranda marked 4, on galley 5, Mr. Secretary, if you care to turn to it, that paragraph 1 says:

(1) The obligations of Series A, B, C, and D are to aggregate in principal amount the sum of \$1,155,000,000, viz, the amount of such obligations acquired by the United States under the first Liberty loan act, and are to be dated April 15, 1919, and are to mature June 15, 1947.

How much, if you know, of the total debt of Great Britain is subject to being deferred for 25 years?

Secretary MELLON. I presume that which is stated here.

Senator LA FOLLETTE. You think that is the full amount, do you?

Secretary MELLON. I think so.

Assistant Secretary WADSWORTH. If you will look at the schedule just above, Senator La Follette—

Senator LA FOLLETTE. You mean the little table above?

Assistant Secretary WADSWORTH. Yes; the little table above shows the amount under the first Liberty bond act and the amount under the second and subsequent Liberty bond acts.

Secretary MELLON. It is set forth there very clearly.

Senator LA FOLLETTE. Yes. I have only had an opportunity since I received these proofs to glance them over very hastily, and then only the first three or four of them.

Secretary MELLON. But, you see, that is a very cumbersome way to split it up; and then there are varying rates of interest.

Senator LA FOLLETTE. Did the memoranda disclose that they were negotiating to defer not only the principal sums due and the interest thereon, but to make provision that no interest should be collected upon the deferred interest obligations? Do you remember that their negotiations went to that extent?

Secretary MELLON. I do not know whether anything definite is referred to in that respect.

Assistant Secretary WADSWORTH. That is set forth in the letter.

Senator LA FOLLETTE. It caught my eye in a number of places, running through here, that in every reference to the deferment of the obligations here it provided, in every case, that there should be no collection of interest upon interest.

Our interest obligation here is some three or four years old, as to a portion of it. Yet it would seem that it was not only in the mind of the debtor, but that the representatives of the Government at that time were quite willing to make an agreement that all interest upon interest should be forgiven.

Is that your view of what should be done with these Governments?

Secretary MELLON. I could not say. I have not examined carefully as to what the obligation is there.

Senator LA FOLLETTE. You know that Great Britain, for instance, owes us something like \$400,000,000 in interest?

The CHAIRMAN. More than \$400,000,000?

Senator LA FOLLETTE. Yes. A portion of that has been due for one year, and other portions for at least two, three, and four years. We have lost the use of that money. Our Treasury Department has had in the meantime to negotiate loans from the public through the sale of its Treasury certificates at an interest rate of some 5 per cent or more. I think it is now about 5½ per cent, is it not, that those Treasury certificates bear?

Secretary MELLON. Yes.

Senator LA FOLLETTE. Of course the interest upon that interest, if it had been paid, would have amounted to a very considerable sum. I have not had time to reckon it out in any definite way, but I think it would amount to some \$40,000,000 or \$50,000,000 of interest which could be claimed upon the nonpayment of the interest which fell due.

Do you contemplate any arrangement with these Governments by which that will be forgiven?

Secretary MELLON. I think it would be entirely proper to collect interest on the overdue amounts of interest; but, as I say, I do not know what the obligations may be arising from the advices and negotiations which have gone before. I would expect, before coming to a conclusion in regard to the matter, to examine and make myself acquainted with all of the matters in connection with that question. As I say, I do not know what may have been said to Great Britain on the subject. I have not gone into the details.

Senator LA FOLLETTE. Well, you have had your attention called, of course, to these memoranda which you transmitted to Mr. Geddes in your letter of May 11?

Secretary MELLON. Oh, yes; but you understand that it has not come to a question of giving serious consideration to the matter?

Senator LA FOLLETTE. Do you think, from such examination as you have made of these conversations that passed between the representatives of the two Governments and of the exchange of notes that was made, that we have incurred an obligation to remit that interest?

Secretary MELLON. I do not know. There is a possibility of its being either way; but, as I say, I have not gone into the question thoroughly.

Senator LA FOLLETTE. Do you think there was any authority given by Congress in the act that it passed for such an obligation to be incurred by the officials of the Treasury Department?

Secretary MELLON. What obligation do you mean?

Senator LA FOLLETTE. I mean the extension of the interest obligation and the discharge of any obligation upon the part of these debtor Governments to pay interest on interest.

Secretary MELLON. They seem to assume that.

Senator LA FOLLETTE. I am asking you if you think they had a right to assume it.

Secretary MELLON. They may have had. I do not know.

Senator REED. Senator La Follette, I do not want to interrupt the course of your examination, but I can stay only for a few minutes, and I would like to ask several questions.

Senator LA FOLLETTE. Go right ahead.

Senator REED. I would like to ask your kind permission to put three or four questions.

Senator LA FOLLETTE. Take the witness.

Senator REED. Mr. Secretary, I understood you to say yesterday in your examination that you regarded this Government as morally bound by the negotiations which had been carried on by your predecessors in office and by Mr. Rathbone and others representing this Government. Is that correct?

Secretary MELLON. I think that is correct. To what extent I do not know; but in a general way I think there is an obligation.

Senator REED. I want to get your viewpoint, Mr. Mellon, how you feel, not in reference to the legal obligations—I am not asking you to pass on the law; but there were negotiations carried on, and there is produced here a letter which was written under date of May 11 by yourself and addressed to Mr. Geddes. Attached to that letter are various documents setting forth the terms of proposed agreements.

I call your attention to that as a preliminary. With these documents before us on yesterday, at least with the letter before us, you were asked these questions, and I want to read you the context:

Assistant Secretary WADSWORTH. I think at our first hearings I described these negotiations that went on between Mr. Rathbone and Mr. Blackett in Europe. Those negotiations were partly by letter and partly verbal. Out of them grew the suggested arrangement as outlined in that letter that was just read, which appears in the Secretary's annual report. The letters and the memoranda which grew out of those conferences have all been sent up here and are now there in proper form and in exactly the sequence and the way in which they were filed in the Treasury Department, every single document.

Senator REED. Then, let us have them.

Assistant Secretary WADSWORTH. And they have been here now since last February, I think.

Senator REED. Let us have them now. Can you find them?

The CHAIRMAN. Let Mr. Heffelfinger produce any paper called for out of these chests.

Secretary MELLON. Senator Reed, while those are being produced, I would like to state that this report of Secretary Houston refers to this understanding that we spoke of. Mr. Wadsworth has that report.

Senator REED. All right. What is that page, Mr. Wadsworth, that you are going to read from?

Assistant Secretary WADSWORTH. As to the situation with regard to the interest? Senator REED. Yes.

Assistant Secretary WADSWORTH. Page 58.

Senator REED. Well, that is the page I read from.

Assistant Secretary WADSWORTH. You have read that.

"In the early autumn of 1919, the Treasury informed the treasuries of the European Governments to which it had made advances that it was prepared, in case they so desired, to discuss with them the exchange of the demand notes for long-time obligations, and in that connection the deferring of interest collection during the reconstruction period of two or three years from the spring of 1919."

Now, that was done during these negotiations which Mr. Rathbone carried on in Paris.

Secretary MELLON. Which, you will observe, is a statement to those Governments that their interest will be deferred. That is the understanding to which I referred.

Senator WATSON. Let me ask you this question, Mr. Secretary: Whatever Secretary Houston may have said or done or thought, and whatever Secretary Glass may have said or done or thought, in connection with this proposition, do you consider yourself bound by those understandings to extend this interest payment period?

Secretary MELLON. When representation was made by the Secretary of the Treasury to the foreign Governments that they could regard that interest as being deferred, I consider that the Government of the United States is under obligation to defer it.

Senator WATSON. That is what I want to get at. Have you had any correspondence with any of the Chancellors of European Governments with regard to that question?

Secretary MELLON. Only the letter to the British ambassador, which was brought here, giving him the status of the British claims.

Senator REED. Where is that letter?

Senator WATSON. May I proceed for a minute?

Senator REED. Well, let us get that letter.

Senator WALSH. And I suppose he wants to add also the conversation which was referred to yesterday.

Senator WATSON. What else, besides this letter of which you spoke and this statement with regard to those understandings, have you in the Treasury upon which to base your decision as to your future policy?

Secretary MELLON. What is that?

Senator WATSON. You say you have a letter here, to which you just now referred.

Secretary MELLON. That is a letter to the British ambassador giving him a statement of the British indebtedness.

Senator WATSON. When was that letter written and by whom and to whom?

Secretary MELLON. Mr. Wadsworth has it there.

Senator REED. Let us have the letter read.

A little later on, after that letter had been read and after these exhibits which were attached to it were read, the following occurred:

Senator REED. Are those documents attached to that letter?

Assistant Secretary WADSWORTH. They are all attached.

Senator WATSON. There is nothing with regard to the extension of interest payment, Mr. Secretary?

Secretary MELLON. No.

Senator WATSON. Have you had any communication of any kind from any of the officials of any of the countries of Europe that owes us money with regard to the extension of interest payment?

Secretary MELLON. No.

Senator WATSON. Have you written any letters or had any sort of understanding with them verbally with regard to an extension of payment of interest?

Secretary MELLON. No.

Senator WATSON. Awhile ago you said that if these understandings had been had hitherto by previous Secretaries of the Treasury, or either of them, with regard to the extension of payment of interest you would be bound by those understandings. What evidence have you in your department of such understandings?

Secretary MELLON. There is a statement of the Secretary of the Treasury that such representations have been made to those Governments, and that they were advised that if they so desired this interest would be deferred.

Senator REED. On what—

Senator WATSON. Wait a minute. One at a time.

Senator REED. I want to get that statement clear.

Senator WATSON. That is what I want to do. You say that the Secretary of the Treasury said that statements had been made of that character. Who made those statements and what evidences are there in writing of those statements?

Secretary MELLON. I do not know, other than those memoranda of the negotiations.

Senator WATSON. You have not looked them up, then?

Secretary MELLON. No.

Senator WATSON. So that this statement made by the Secretary of the Treasury, Mr. Houston, that Mr. Wadsworth has read from, is the only evidence of that kind that you have, is it?

Secretary MELLON. I would not be sure that there is not other evidence. I rather think there is.

Senator WATSON. Have you seen those memoranda, Mr. Wadsworth, to which Mr. Houston refers, the memoranda accompanying the conversations with regard to the extension of interest when these people met to discuss the matter?

Assistant Secretary WADSWORTH. They are right here. Here they are.

Senator WATSON. You have them here?

Assistant Secretary WADSWORTH. This is the result of their negotiations.

Senator WATSON. Attached to the letter?

Assistant Secretary WADSWORTH. Yes.

Senator WATSON. Then, what is Mr. Heffelfinger looking up in these boxes?

Then Mr. Wadsworth said that there were a lot of letters and cablegrams which constitute the memoranda of those conversations—

The CHAIRMAN. Senator Reed, are we not taking up unnecessary time?

Senator REED. I am sorry to take up so much time, but I think it is important.

The CHAIRMAN. To reread testimony taken only yesterday seems rather tedious to me, personally. I do not know how it seems to the rest of the committee.

Senator REED. Mr. Mellon said, after his attention was called to all this:

That is the report, and in addition to that you understand these conversations that were carried on recognized that understanding that the interest could be deferred by these governments. They took that for granted, as I understand it.

I have read that to try to put before you all the testimony, or practically all of it, because I can not get out of it a clear understanding. I would like to know whether you regard yourself or this Government as morally or legally bound to carry out any of the propositions set forth in the various documents which are attached to this letter of May 11?

Secretary MELLON. You understand that I can not say whether I am morally or legally bound until I have examined the documents and examined into the question, which I have not done. I have only the knowledge of the report of Secretary Houston and a casual reference to these documents, and I have not considered that there was occasion to go into the details, because we had not come to the actual negotiations on the subject. I would expect to go carefully into all these questions and expect to take advantage of all the rights that we have; but, as I say, I have not gone into the question. I have been busy on other matters, and I only know what I have gathered generally, just as you are doing now. I have before me the report of Secretary Houston, and in that he suggests in that connection the deferring of interest collection during the reconstruction period of two or three years from the spring of 1919, with the statement that in case they so desire the deferring of interest would be made. That is in the Secretary's report to Congress. Those memoranda are all of the matters, so far as I have looked into them, I have not made a careful examination at all, and I have not considered the question at all, because I have not come up to it.

Senator REED. What about this answer, then? I want to know if you want to change it.

Secretary MELLON. When representation was made by the Secretary of the Treasury to the foreign Governments that they could regard that interest as being deferred, I consider that the Government of the United States is under obligation to defer them.

Secretary MELLON. I do not think I should change that. That is the situation as it exists.

Senator REED. If that was the situation as to the deferred interest, it would be the situation as to all the other representations that were made by your predecessors?

Secretary MELLON. But you understand that most of that deferment has already elapsed. It has been accomplished to a great extent.

Senator REED. But also in connection with the matter of deferment the question is taken up as to how that should be done, whether the present obligation should be paid now or whether they should be scattered over a period of many years. It is all in these papers. Would you regard the United States Government as bound by that?

Secretary MELLON. I say I do not know, because I see here set forth by Secretary Houston a definite proposition as to the extension. How far they went with that I do not know. I do not know what my obligation is, because I have not made examination sufficiently to determine.

Senator REED. You would feel bound by whatever was done by your predecessor, whether it had been closed up or not?

Secretary MELLON. I would not state it as broadly as that, because there may have been things done that I would not consider I was bound by.

Senator REED. How far would you consider yourself bound?

Secretary MELLON. By the conditions that I can ascertain from the documents themselves and from what has been done. As I say, I am not prepared to say at this time.

Senator REED. Mr. Chairman, that brings me right up to this question, and I will state it to the committee.

I have examined not all, but about two-thirds of these documents which were produced to-day. In view of the Secretary's testimony that he does not know, until he has examined the documents and correspondence, whether he is going to regard himself as bound or not, and as it goes to the whole question of the funding of this debt and the terms upon which it is to be funded; as it involves the waiver of something like a hundred and twenty million dollars of interest upon interest, as it involves the acceptance of an obligation which, instead of being according to the law in the form of our Liberty bonds, substantially takes up, I think I can say, several thousand words in a long, involved contract written into the face of the bond, I am going to ask that the Secretary of the Treasury examine these documents and come back here prepared to tell us what he proposes to do in regard to the whole question; that is, whether he proposes to carry out this tentative arrangement, whether he regards it as binding, and, if not binding, then what he does propose to do.

The CHAIRMAN. What arrangement, Senator Reed?

Senator REED. Senator, attached to the letter of May 11 are copies of memoranda of negotiations that went on between the British Government and the American Government, not only with reference to the British loan but with reference to other loans.

The CHAIRMAN. That is not an agreement.

Senator REED. That is just the question, whether the Secretary will regard it as an agreement when he gets through or not. He states here in one of his answers that he feels bound as to the understanding arrived at—that refers to the deferring of the interest—because he thought it perhaps was morally binding. Yet he tells us this morning, very naturally, that not having examined these documents he is not ready to commit himself.

The CHAIRMAN. Would you pardon me one moment? I know that I ought not to inject myself as a member of the committee here, because we are here to examine the Secretary, but it seems to me that you are overlooking the difference between an expression of opinion or a tentative negotiation as distinguished from an actual agreement. I take it that the Secretary would be bound by an actual agreement or understanding, even verbal; but a mere tentative negotiation is not binding.

Senator REED. Senator, I will try to make the thing as plain as I can make it. These various papers appear to be memoranda of conversations between the representatives of this Government and Great Britain. They are set down in the form of agreements. They contain specific provisions that the United States shall not be bound by this document until it has been agreed to. But the very next document that we see, the one that will succeed the first one, treats as a settled fact certain things that are referred to in the tentative or first draft. And so we go through it, and they have been acting upon it, deferring the payments under it, although we have got no evidence yet that there was a specific agreement to do that.

I take it that the situation is this: These negotiations were carried on. They never were actually signed up between the two Governments, but both Governments acted upon them, and under those circumstances the question will arise, Does Secretary Mellon regard himself as bound? The only man to answer that in the world is the Secretary, and he can not answer it until he has examined the documents.

I do not want to prolong this hearing. I want to bring it to a close. But we can not bring it to a close, in my judgment, properly, until we know what the Secretary's position is. My vote in the Senate is going to be determined by his answer to this and similar questions. I think other votes will be so determined.

Senator WATSON. Here is the way that I understand the situation. We now know the amount of money that each nation owes us. We know the amount of interest that each nation owes us. We know the situation, so far as the deferred payments are concerned. We know the amount of money that stands to the credit of each nation, and we have the statement of the Secretary that he does not feel himself obligated to furnish any money from those credits at any time in the future, as far as credits are concerned.

We also have the statement that up to this time seven hundred and thirty millions of interest have been paid by these foreign nations to us, and substantially every dollar of that has been furnished by us to them for the payment of that interest. The money they paid to us as interest they got from us. The Secretary has said that he does not feel obligated, in the absence of any specific understanding, to permit money to be paid by us to them for the purpose of paying interest to us, on the debt they owe us. It looks to me as though we had cleared away practically all of the underbrush and have arrived at this one thing yet to be determined. That is, whether or not there is such an understanding growing out of this letter or any documents of like character that bind the Secretary morally or legally to defer interest payments.

Senator REED. Or to accept particular kinds of obligations.

Senator WATSON. There is nothing of that kind involved, is there?

Senator LA FOLLETTE. Oh, yes. They are specified in many cases.

Senator WATSON. He has already stated in a previous examination that there might be other kinds of obligations——

Senator REED. In this correspondence there is a scheme laid out for the entire settlement of these debts, the kind of bonds that they are to give, the kind of interest they are to have, the kind of sinking fund that is to be created. All that is laid out in this document; and it is constantly represented that in no case is interest upon interest to be counted.

If a man undertook to examine the witness and read these documents to him and ask him what he was going to do under them, it would take two or three days time. In the interest of shortening it up I think the Secretary ought to take these documents and correspondence and be prepared then to tell us whether he feels obligated in any way by these various instruments or what has transpired under them or outside of them——

Senator WATSON. It is the business of the committee, of course, to direct the course of the examination, and not to get into controversial issues, but I would like to ask Senator Reed this question:

Suppose we determine that certain commitments have been made by Secretary Houston or Secretary Glass in reference to this question of deferred payments, and the Secretary feels obligated and says so. Then what do you propose to do?

Senator REED. Then it becomes a question of what Congress will do, whether they will give him the authority to settle the cases as he may see fit, or whether Congress would say, No, that can not be done.

Senator WATSON. That question will come up to Congress, anyhow, and are we willing to give the Secretary authority to settle that question in the absence of what commitments may have already been made?

Senator LA FOLLETTE. We would like to know what his attitude is going to be after he has examined the document.

Senator WATSON. My understanding is, Senator La Follette, that he says if these obligations exist and these commitments have been made, he feels bound by them.

Secretary MELLON. Let me just make a statement in regard to this. I have not gone into all the details of these commitments, as I say, and there may have been other obligations. I would not consider, if I had full authority, that this tentative arrangement was a good one. I would go at it from the beginning. I would endeavor to put it into shape as one obligation and cover all of the interest and all that we would have a legal and moral right to include. I do not see, myself, how, in the face of the statement made here, of which the foreign Governments were advised, that they could have this deferment of interest which is expressly stated here, that you can go for two or three years, and after that time has very largely elapsed say, "Now, you have to go back and pay up this interest and pay compound interest." It seems to me that would be going to an extreme. It is what exists that I have to be guided by.

Senator REED. Mr. Mellon, you do not know what exists, yet.

Secretary MELLON. No. I have not had occasion to go into it in detail.

Senator WATSON. Let me get to the finality. Suppose we assume that the obligations exist and he is bound by the commitments. Then what can we do?

Senator LA FOLLETTE. Suppose he assumes one thing and we find another. We want to know what he proposes to do, do we not—how far he feels himself bound?

Senator WATSON. I am assuming, though, that he feels himself bound to live up to any obligation these people have made and that it is the understanding when we report this bill out that we are bound. Then what can we do in Congress?

Senator REED. Let me answer that. Secretary Mellon is here asking that a bill be passed which gives to him practically unlimited authority in the matter of making these settlements. If Secretary Mellon is of the opinion that this Government is bound by certain acts and that he must do what his predecessors have outlined, then if he says that and we know what those acts were—and we do not know yet, fully—we would know whether we wanted to give him authority to do those acts. If he says, upon the other hand, that he does not regard himself as bound, but will treat this thing in a big, broad, business way and settle it according to the law as it existed, you have an entirely different proposition.

We are not obliged to pass this bill and we are not obliged to ratify any act of any man in the Treasury Department unless that act was within the law. I have not the slightest hesitancy in saying that if these things were done that we find hinted at, they were done in utter defiance of the law.

Secretary MELLON. Will you let me say that I would consider it my duty to do that which was to the best interests of the Government? I was careful in writing this letter to say:

The papers can not be said to have been in any sense the drafts or proposals of either, and the fact that any provision is contained in them does not indicate that either was prepared to agree to it.

I did not commit myself to anything that had gone before, in writing to the ambassador, but when you ask a question in regard to this deferment which was made, with the foreign Governments advised of it definitely for a specific time, it does seem to me that that has gone to an extent that you can not reverse it.

Senator REED. You also said this, in discussing these negotiations. I am not trying to cross-examine anybody. I just want to get at a fact.

The CHAIRMAN. We all want to get at the facts, and we are indebted to you, Senator Reed, for your careful scrutiny of this transaction.

Senator SIMMONS. If Senator Reed will pardon me, I think, Mr. Chairman, that on yesterday the Secretary made this impression upon my mind, and I think probably on the minds of most of the members of the committee, that while probably he had not investigated the whole matter and the data connected with this question as thoroughly as he would before he took final action, yet acting upon the information that had been brought to his attention, and with his present understanding, he had rather reached the conclusion that the Government of the United States was bound by this agreement which Senator Reed describes as a tentative understanding; and the impression was created that if this authority were given him he would regard that matter as settled.

Now the Secretary makes another statement to-day, showing that his mind is still not finally made up. It is made up, however, if there are no additional facts brought to his attention to change his present impression. I think it is very important for us, before we give this authority, to have some definite understanding of what is going to be the ultimate decision of the Secretary with reference to whether this matter has already been foreclosed and whether he is bound, whether he wishes to be or not, by some negotiations that have heretofore taken place.

Congress might have an idea, if the Secretary will give us a definite statement, that the Secretary had reached an erroneous conclusion and one upon which the Government did not wish the settlement of these obligations to be predicated. Congress might, disagreeing with the Secretary, say that "We will instruct you about this in the law we pass. We will impose limitations upon the authority given and will direct you not to proceed to a settlement until further negotiations have been had and further conclusions reached."

So far as the negotiations that were carried on by Mr. Rathbone were concerned, my understanding is that while he and the English

negotiator had come very nearly to an agreement, they did not reach a final agreement, and that the negotiations were called off, not at our instance, but at the instance of the English Government. How we would be bound in these circumstances by the discussions and tentative understandings that these representatives of the two Governments had, I can not understand.

Secretary MELLON. You are not bound by those.

Senator SIMMONS. Secretary Houston, by saying that he has this view or that view about it, can not bind the Government any more than I think the Secretary can bind the Government.

Secretary MELLON. But would you allow me to say this—

Senator SIMMONS. We may give him authority to bind the Government, but he has not that authority yet, and Secretary Houston did not have the authority at the time.

Secretary MELLON. I would not consider myself bound by these tentative proposals, and so forth. The only thing referred to was this statement that we informed the treasuries of the European Governments to which we had made advances that this Government was prepared to defer the interest. They have been informed that we would do so. It has gone further than merely a tentative proposal in that respect.

Senator SIMMONS. Let me ask you a question. In the absence of authority—you are coming now to us and asking us for authority, and that presupposes that in your judgment you have not the authority—in the absence of authority do you think that Secretary Houston had the right to bind this Government by an agreement reached between him and the European Governments that we would postpone this interest?

Secretary MELLON. I do not know. I presume he must have considered that he had the authority to make that sort of a direct statement and advice to the foreign Governments. But I would say this, that if I had the broad authority I would not proceed on this plan at all. It is a cumbersome plan, and I think a very much better arrangement can be made, better for this Government in the actual amount that will be received, by treating this as a whole and taking it and making the most out of it and putting it into form for available use in the future. Without that authority you have to proceed on a plan that is authorized under these various acts, and you have to go along on that general plan; and, at least, so far as any tentative deferment of interest or failure to require compound interest, and so forth, is concerned, I do not know, and would not know without examining into these papers and into the whole matter. That is what the negotiation would be. It would be to endeavor to get at the facts and make the most of the transaction.

Senator SIMMONS. When we first opened these hearings it was made clear to the Secretary, I think by some of us, that there were two things that were of outstanding importance in the minds of Senators in connection with the granting of this power that the Secretary asks. First, whether there would be an effort to substitute German bonds for bonds of other foreign Governments indebted to us, and, secondly, what was going to be done about the postponement of interest.

I remember that I said to the Secretary in a question that I asked that I was asking it without any curiosity in the matter, but I thought

Congress was entitled, before acting upon his request for power, to know what was in his mind with reference to the settlement of these matters, as those two questions were involved; and I think that is the feeling in Congress. I think if the Secretary were prepared now to give us some positive statement as to what is in his mind and what would be his purpose with reference to those two fundamental questions, it would clear the atmosphere so far as this legislation is concerned.

Unless those two points can be cleared up I think there will be very great hesitation about giving him the power. We might be perfectly willing to give him latitude, and very much latitude, but I think we would all like to know exactly his mind and his purpose with reference to those two fundamental points.

Secretary MELLON. Then I will state that there is not the remotest expectation in my mind of accepting German bonds for any other kind of bonds. There is no expectation of anything of that sort.

As far as the question of interest is concerned, I would expect to provide for the collection of all of the interest that is legally due to the United States. I do not think I can say any more than that.

Senator REED. Mr. Mellon, you do not mean to provide for any particular time?

Secretary MELLON. How is that?

Senator REED. You would want to have that left so that you could scatter the payments over a period of years?

Secretary MELLON. If necessary.

Senator REED. Just one thing further—

Senator SIMMONS. Senator, then the question is, Does the Secretary consider himself foreclosed with reference to any adjustment of this interest by these negotiations that Rathbone carried on over there?

I understand he is not able to tell us yet whether he does so consider himself foreclosed; and I think your position is a very defensible one, that the Secretary ought to have an opportunity, if he cares to make further investigation, in order to reach a conclusion about that. He ought to have an opportunity to make investigation and then come back and answer definitely to us.

Secretary MELLON. My idea would be that the procedure would be to have each Government, if they ask for any deferment of interest or any modification or anything of the kind, to make their statements of the reasons for it and what their claims are, whether they were entitled to it, etc. I would not consider myself under obligation for some tentative arrangement that had not been agreed to.

Senator REED. Exactly. And now the question will arise at once whether it has been agreed to in such form that it is binding. Let me call your attention to this fact: You say, Mr. Mellon, that you think we are bound to the forgiving of the interest upon the interest?

Secretary MELLON. No; we are not bound to forgive any interest.

Senator REED. You say we are bound to the deferring of the interest because there appears in the Secretary's report this language:

In the early autumn of 1919 the Treasury informed the treasuries of the European Governments to which it had made advances that it was prepared, in case they so desired, to discuss with them the exchange of the demand notes for long-time obligations, and in that connection the deferring of interest collection during the reconstruction period of two or three years from the spring of 1919.

That is only a statement that they were prepared to discuss it; and yet, because they refer to interest in there, you say you think we are bound by that; we have acted upon it.

The same statement embraces the matter of the exchange of demand notes for long-time obligations, and that embraces the entire question of settlement.

Proceeding upon that, they had negotiations. Those negotiations embraced not only the question of deferring interest, but the question of the forgiving of the interest upon the interest, the character of the long-time obligations, the interest upon the long-time obligations, the adjustment or settlement between Great Britain and the United States of joint claims that the two countries had against certain other countries, and the entire proposition is all drawn into this case by the statement that I just read.

I think that the Secretary ought, in his own interest and in the interest of a plain statement, so that Congress can understand it, to take these documents and the correspondence which Mr. Wadsworth referred to yesterday which could modify these documents, and go through them carefully with what help he desires to employ, and then he can tell us whether he regards himself as bound in any respect. If he has a perfectly free hand, then he could outline to us in a general way what his purposes are. I think that is only fair. I think we could sit here for a month, as we are now, and not get anywhere.

Senator WATSON (reading):

In the early autumn of 1919 the Treasury informed the treasuries of the European Governments to which it had made advances that it was prepared, in case they so desired, to discuss with them the exchanges, etc.

Did any nation ever notify this country that it so desired, or did the thing just run along without any effort to collect the interest?

Secretary MELLON. I really do not know.

Senator WATSON. You have not run across anything to signify that they so desired?

Secretary MELLON. Not so far as I know.

Senator WATSON. I did not know whether it had just been permitted to drift.

Senator LA FOLLETTE. All these negotiations between Mr. Rathbone and Mr. Blackett took place after this period named in the Secretary's report; that is, in the early autumn, he says, of 1919, when "the Treasury informed the treasuries of European Governments to which it had made advances that it was prepared," etc. Following that, all of these negotiations took place, and then, pursuant to the negotiations which did not reach, perhaps, the point of an actual agreement, the Treasury Department has proceeded upon that plan fixed in the negotiations and has extended the payment of the interest as named in these negotiations clear up to the present time, and it is said in these negotiations that interest is not to be collected until April, 1922—more than a year hence.

Senator REED. And that no back interest is to be collected.

Senator LA FOLLETTE. No interest upon interest is to be collected at all.

Senator REED. Let me call attention to the necessity of the Secretary's making this examination. It is recited as one of the

conditions of this bond, which occupies, I think, thousands of words—I have not counted them—

From time to time, at the request of the holder of this obligation, the obligor, at the United States Treasury, Washington, will convert all or any part of the principal amount of this obligation into—

(1) An equal principal amount of engraved obligations bearing interest at the same rate as the principal amount converted, and substantially in the form indicated in Exhibit A, hereto attached, payable to bearer and negotiable by delivery, with interest coupons attached, in denominations of \$50, \$100, \$500, and \$1,000, or registered as to principal and interest and in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000, \$50,000, and \$100,000; and/or

(2) An equivalent principal amount, at the fixed rate of exchange of dollars gold of the present standard of weight and fineness 4.8665 to the gold pound sterling of the present standard of weight and fineness, etc.

It looks to me as though that were an effort to equalize exchange. I do not know whether that is true or not.

Secretary MELLON. Oh, no. If you understand, that is a plain statement that it is at the parity of exchange, the governing rate of exchange.

Senator REED. But we are to take the bonds at \$4.86. One pound would equal \$4.86, and the pound may be down to 50 cents on the dollar. I do not say that is so, Mr. Mellon. In a hasty reading of a thing of this kind I can not form my opinion.

Secretary MELLON. But when this money was advanced it was provided that it should be at the terms authorized in the Liberty loan acts.

Senator REED. The terms authorized in the Liberty loan acts were the payment of dollars, as I understand it. This instrument is full of such provisions. Here is a provision that they can pay in Liberty bonds at par. Liberty bonds may be down. They could pick them up in the market and pay them in at par. I do not say that that is wrong. I am calling attention to the multitude of questions involved.

Secretary MELLON. But it is wrong. You understand that we are not bound by any tentative propositions there. I would not consider that we would be obliged to take Liberty bonds at par if they are selling at a discount.

Senator REED. The question that we are at, Mr. Mellon, is this: Here are some negotiations. You think we are bound as to part of those negotiations and you do not know whether we are bound as to the rest or not until you go through this correspondence. That is what I am trying to get at. I would like to have you take this correspondence and all these papers and examine them carefully, and then come back here and tell us whether you think you are bound in any respect, morally or legally, and whether you think you have got a perfectly free hand.

Secretary MELLON. I might be able to arrive at that conclusion. It is a pretty big job to go over all these matters. I expect to have to go over them all in order to—

Senator REED. I am sure it will not take you nearly as long as the discussion will take on the floor of the Senate, if the matter comes up there in this nebulous way.

Secretary MELLON. It seems to me a plain, straightforward proposition, if the authority is given that I can take this amount of money that they owe and take the interest on it and make the most of it that can be made. To what extent what has been done heretofore is binding I do not know.

Senator REED. You might think it binding and Congress might think it not binding, and that is just the reason——

Senator SIMMONS. Your disposition and desire are to take this case as it is and make the best out of it that you can for the Government, but you may think your hands are tied in a way that Congress thinks your hands are not tied.

Secretary MELLON. Yes; but you do not know, for instance, what these Governments may have. They may have something that we do not have. They may be able to present something that would have a material bearing.

Senator LA FOLLETTE. These other Governments?

Secretary MELLON. Yes, sir.

Senator SIMMONS. What have they that we have no knowledge of?

Secretary MELLON. I do not know.

Senator SIMMONS. I can not conceive of anything.

Secretary MELLON. I have not been in these negotiations at all. I do not know. I am not anticipating that they would have anything, but you have to meet conditions as they absolutely exist, and if there should be something of that kind that was binding it would have to be observed.

Senator LA FOLLETTE. Then do you not think that it would be a good idea to ascertain that fact and then come back and report to Congress what the conditions actually are so that Congress, when it votes upon this matter, shall know what it is doing?

Secretary MELLON. I would be rather handicapped in a negotiation to settle this matter if I had no authority to do it.

Senator LA FOLLETTE. You would ascertain what the actual conditions are, what the obligations of the Government are, what the claims of the other Governments are, and report that information back to Congress, and then we would know, if we gave you carte blanche in the matter, what we were doing.

You say, yourself, that you do not know that these other Governments have facts or records of which we know nothing; and until those are produced you can not know that the whole situation is and what our obligations are and what our opportunities are.

Senator REED. I beg to suggest that it is a very easy matter to get at. The Secretary wrote a letter and inclosed these documents. All he has to do is to communicate with the British Government and ask them if they claim there are any papers or documents or commitments outside of these instruments. Having an answer to that, which he ought to get very promptly, because he has given them this information some little time ago——

Senator LA FOLLETTE. Two months ago.

Senator REED. He can take these papers and take his advisers or his secretaries—I do not know that he needs any advisers—and sit down and go through them and then he can give us an answer.

Mr. Chairman, I do not want to be doing so much talking, but I want to do the right thing in this matter, the practical thing. I have a very great deal of confidence in Mr. Mellon, but if this thing goes on to the floor in the state and in the form in which it is now, we will be debating it until next October. If it comes on with a clear-cut statement, and with the recommendation of this committee, probably a bill can be enacted with reasonable promptness.

Secretary MELLON. As far as I am concerned, I am not anxious to have the responsibility of these negotiations. I would consider it my duty to do the best I could and make the most for the interests of our own Government. If some other person can do that, if a commissioner can be appointed, or somebody, I would be very glad to be relieved; but you can not make a good piece of work of this without having authority to do it; I am sure of that; and you can not do it in the way of legislation—rather, I mean you can not—

Senator CALDER. You can not set down hard and fast rules?

Secretary MELLON. You can not do it by way of legislative negotiations. It has to be done like any piece of work of that sort. There is a certain amount of money owing there. It does not appear to me to be difficult at all; and so far as any rights that they may have for the deferment of interest, etc., those will appear and will be considered, and it will be obvious whether we are bound by what has gone before.

The statement I made was that when a public statement is made and the foreign governments have been advised that they would have this privilege of deferment, it seems to me that it would be going to an extreme to say to them now that they can not have that deferment to the extent stated. No private individual would do that.

Senator REED. But the thing is not a commitment. As far as it is printed here it simply says in case they so desire we are prepared to discuss with them the exchange of demand notes for long-time obligations. That has not been done, and in that connection, to discuss the—

Senator SIMMONS. I understood Senator La Follette to say a little while ago that they antedated this Rathbone conference.

Senator LA FOLLETTE. Oh, yes; by two years, or a year and a half, anyhow.

Senator WATSON. Those letters refer to the question that we are discussing here, the postponement of interest?

The CHAIRMAN. That is all they refer to.

Senator WATSON. I read a few of them. Do they undertake to bind the Government in any way?

Secretary MELLON. You understand those were tentative negotiations and were not binding on either party, and it is so stated in my letter to the ambassador.

Senator SIMMONS. If they are not binding, how can you say that the letter written before, suggesting this conference, is binding?

Secretary MELLON. Would you consider that after two years have elapsed, when a public statement has been made and the governments have been advised that they had the privilege of this deferment of interest, and no question had ever been raised about it—

Senator SIMMONS. Did the Secretary at any time after this Rathbone conference say they would be extended that privilege? I have not heard it read.

Senator LA FOLLETTE. It is not on page 58, the matter that has been read here. That simply says they were notified.

Secretary MELLON. But the deferment has gone on for two years.

Senator LA FOLLETTE. That may have been just through the carelessness of our representatives.

Senator SIMMONS. It may have been that the Treasury felt that the situation was such that they could not well demand payment of the interest.

The CHAIRMAN. They could not get it; that is the substance of the thing.

Senator SIMMONS. Yes; and therefore they did not demand it.

Senator REED. Let me make this suggestion: The clause read from the Secretary's report is a mere statement that we will take up two things. One is the matter of the long-time obligations, and in that connection, the deferring of interest. Two years afterwards negotiations were entered upon. The Secretary states that because that clause regarding the payment of interest appears in that document and we did not collect the interest and did not force these nations to pay, therefore we are bound as to that.

Let us see where that leads us.

In these documents which are attached to the letter occur the clause about deferment of interest and occur the whole scheme for the long-time obligations, and paragraph 6 says:

Anything herein contained to the contrary notwithstanding, it is distinctly understood that the Secretary of the Treasury, in the exercise of his unrestricted discretion, shall determine whether or not the exchange of obligations contemplated by this arrangement shall be actually made and concluded, and if he shall determine to make such exchange the time when such exchange shall be effected. In case the Secretary of the Treasury shall determine not to make such exchange, then this arrangement shall cease to have any future effect whatsoever. Nevertheless, until such exchange is effected or until the Secretary of the Treasury has given notice that he is not willing to conclude the arrangement for such exchange, neither the principal nor the interest will be demanded on the aforementioned demand obligations of the British Government contemplated to be exchanged as above provided, except only to the extent that such principal or interest would be payable under the terms of the obligations for which it is now contemplated that the same shall be eventually exchanged.

There is an agreement there that they will not demand the interest without notice during these negotiations.

Secretary MELLON. I understand thoroughly that I am not bound by any of those tentative arrangements. It is so stated, clearly, and so stated in my letter to the ambassador.

Senator REED. Then the statement comes that there may be other correspondence. That was made yesterday. There may have been other arrangements. I sent for these papers and started to get them out, and then we adjourned. I still insist upon my proposition that the Secretary ought to take these papers and tell us what he is going to do. I have got to go to my office, but I want to be voted that way.

Senator SIMMONS. Mr. Wadsworth, I understand, has made a more careful examination of the papers than the Secretary has made personally. I want to ask him if there has been any statement by the Secretary of the Treasury since the termination of those Rathbone conferences which could in any way bind this Government to anything that the conference might have discussed?

Assistant Secretary WADSWORTH. I have never seen any statement of any sort that would bind the Secretary of the Treasury.

Senator SIMMONS. The statement of the Secretary was a statement made before those conferences and had reference to the clearing of the way for those conferences.

Assistant Secretary WADSWORTH. Yes.

Senator SMOOT. If you have no objections, I would like to ask Senator Reed a question.

The CHAIRMAN. Senator Reed, Mr. Smoot wants to address an inquiry to you.

Senator SMOOT. As I understand you, in the statement you just made you suggested that the Secretary of the Treasury or the United States Government direct a letter to a representative of the British Government and ask whether there were any other obligations or understandings in relation to the payment of the interest that do not appear in certain papers that have been produced.

Senator REED. Attached to the letter of the Secretary of May 11.

Senator SMOOT. Do you not think that would be a rather strange procedure, to ask another Government to tell our Government what obligations there were?

Senator REED. No; if they claim that there are any negotiations or agreements outside of what are in these documents. The only reason I suggested that was that the Secretary said that they might come forward and claim something of that sort.

Senator SMOOT. Never mind, Senator; let it pass.

Secretary MELLON. As I said before, this is a tentative arrangement. Tentative arrangements are not binding. A statement has been made in every instance to that effect. The only thing that I said in regard to what may have constituted an obligation on the part of this Government was that advice to those Governments that they had the privilege that had been given. If I owed Senator Reed some money and he said I could defer the payment for three years, and then at the end of two years, without ever having said anything further about it, he should demand that interest, I think I would consider that I was entitled to three years, because I was given that information and it was acted on. I think that between two individuals it would constitute a contract to that extent. That is only an opinion; but, at the same time, if it has gone to the extent of being an obligation——

Senator LA FOLLETTE. May I ask you right there, Mr. Secretary, if the negotiations also covered the noncollection of interest upon interest, and that had not been done, you would then feel that you were foreclosed from collecting interest upon the unpaid interest?

Secretary MELLON. I doubt whether I would consider that, because——

Senator LA FOLLETTE. If it had been acted on in the same way as the other, why would you not be bound in like manner?

Secretary MELLON. To the extent of the time that has expired, I think we would be bound up to that time, but I am not sure about that. If it could be included, I would expect to include it.

Senator REED. But the time has expired, and we can not go back and make them pay it as of some time prior to this. But the question would arise whether you would feel that you were now privileged to say to them that you now want the interest, or whether you would feel bound to extend it over a period of years, as outlined in this scheme.

Secretary MELLON. I would expect to collect all of the interest we are not precluded from including.

Senator REED. The question is, what do you think we are precluded from?

Secretary MELLON. I do not know.

Senator REED. We will never get at this, Mr. Chairman, unless we can have the Secretary do as I suggested.

Senator SIMMONS. In regard to the assurance that they might have this deferred interest—that was for three years, was it not?

Senator WATSON. Two or three years, the letter said.

Senator SIMMONS. I understand that you say those three years have already elapsed?

Senator LA FOLLETTE. No; not until April, 1922.

Secretary MELLON. More than two years have elapsed, and we are in the third year.

Senator REED. This clause in this instrument would be some evidence of the understanding up to that time:

Nevertheless, until such exchange is effected or until the Secretary of the Treasury has given notice that he is not willing to conclude the arrangement for such exchange, neither the principal nor the interest will be demanded on the aforementioned demand obligations of the British Government.

So that it would seem that you are at liberty to notify them that you want this money, and that you will make the exchange for securities upon the basis laid down in these documents.

Do you think that would be the case?

Secretary MELLON. What would be the case?

Assistant Secretary WADSWORTH. As I understand it, Mr. Chairman, those documents are no commitment to anybody. That was perfectly clear when they were written. They were just a suggested form of doing this thing, and they meant nothing, any more than any other memorandum would.

The CHAIRMAN. That is my understanding.

Senator REED. And yet these documents which were made after all these negotiations took place are some evidence of the state of mind of the parties at that time, and when one of these documents contains a clause that "nevertheless until such exchange is effected or until the Secretary of the Treasury has given notice that he is not willing to conclude the arrangement for such exchange, neither the principal nor the interest will be demanded on the aforementioned demand obligations of the British Government contemplated to be exchanged as above provided," that would seem to indicate that this Government was left in this shape, that pending these negotiations it would not collect the interest, but that the moment it declared the negotiations off it then would be at liberty to demand this interest.

Is not that what your view of it is, Mr. Mellon?

Secretary MELLON. I think that is so.

Senator REED. So that it does not look as though we had made an absolute agreement to defer this interest and scatter it over a period of years, does it?

Secretary MELLON. All I have is the statement that was made there.

Assistant Secretary WADSWORTH. That was written down as the frame of mind of one individual a year and a half ago. It bound nobody.

Senator REED. Was there a frame of mind in some other individual's head to the contrary that binds us? If our Government did not so understand it, and the British Government understood it otherwise, are we bound by the British conception of it?

Assistant Secretary WADSWORTH. In the writing of all of these memoranda it was clearly stated that they bound nobody; that they were simply a basis upon which this thing might be put through later.

Senator REED. And yet we are being told that we are bound by some sort of an understanding and action under it.

Mr. Chairman, I move that the Secretary be requested to take all these documents and papers that he desires to refer to, to examine them, and at the next meeting of this committee to advise us to what extent, if at all, the United States is obligated in regard to any matter concerning the loans made to foreign governments.

Secretary MELLON. Will you just let me say that that is a pretty big contract. It is going to take a lot of study.

Senator REED. It is going to require a lot of study, and somebody has got to study it.

Senator WATSON. Of course somebody has got to proceed to arrange this indebtedness.

Secretary MELLON. My idea of the procedure in arranging the indebtedness would be, if I had the authority, to cut out all of this. There is that much owing and there is that much interest. With that as the basis I do not think there will be any objection to the payment of the interest nor to the meeting of the full obligation.

Senator SIMMONS. Mr. Secretary, if you would say to this committee that you would enter upon these negotiations with a feeling that you had a free hand and open mind and that you were not handicapped by anything that had transpired in the past I think that we would feel very much better satisfied.

Senator WATSON. Is there anything in the way except that one year's deferment of interest, even under the suggestion of Secretary Houston?

Secretary MELLON. That is all there is.

Senator WATSON. That letter said that it might be extended two or three years. Two years are up. Unless there is some sort of fixed agreement by which the postponement of that interest shall be made for three years, the time is up. What else is there?

Secretary MELLON. I do not believe that there would be any contention on the other side. I think that they would be agreeable to meeting the interest from the time that the negotiations could be had and the matter could be settled.

Senator WATSON. Of course, there is some of this interest, Mr. Secretary, that you can not collect if you had all the power in the world.

Secretary MELLON. As to some of these Governments there are amounts owing and you can not get the money. That is all.

Senator WATSON. If you sent an Army over there you could not get the money, and there must be negotiations with reference to those.

Secretary MELLON. Yes.

Senator WATSON. Therefore the only point of contention here, as I understand it, is simply as to the postponement of interest under a statement made by the Secretary of the Treasury.

Secretary MELLON. I would say that I would undertake in every one of these cases to collect every dollar of interest that is due the United States, and the only interest that I consider not due to the United States would be something that they could show me that they were within their rights in their contentions for.

Senator WATSON. Suppose this letter had never been written, and you were coming up asking for authority. Do you believe you would have the right to defer interest payments where it was at all possible to collect the interest?

Secretary MELLON. There might be conditions where it would be desirable to agree to some deferment of interest. I do not know. You must meet conditions that exist.

Senator SIMMONS. Mr. Secretary, then, as I understand you, if you should finally reach the conclusion that this assurance of the Secretary of the Treasury as to two or three years' extension of interest was binding, you would not consider that binding as to any interest that might accrue after the two or three years?

Secretary MELLON. Oh, certainly.

Senator SIMMONS. But you do want a free hand if you think it is to the best interests of this country to further extend the interest payments?

Secretary MELLON. Yes. I want you to understand there is no bias in my mind in favor of any of these Governments. I want to do the very best and make the very best settlement that can be made of the matter, just as any of the members of the committee do.

Senator SMOOT. Former Secretary Glass or former Secretary Houston have never stated that they could not compel any of those countries to pay the interest. Secretary Glass, in his letter of December 18, 1919, to Hon. Joseph W. Fordney, gives a reason why it has not been collected, in these words:

If the Treasury does not defer the collection of interest and thus adds to the present difficulties in the financial and economic rehabilitation of the world by demanding an immediate cash payment of interest before the industry and trade of Europe has an opportunity to revive, we should not only make it impossible for Europe to continue needed purchases here and decrease their ultimate capacity to pay their debts to us, but should hinder rather than help the reconstruction which the world should hasten. A nation can liquidate its foreign debts only by the accumulation of foreign credits, which may be accomplished through an excess trade balance, invisible exchange items, the creation of credits by loans, or by the export of gold, etc.

Senator SIMMONS. That makes it clear that Secretary Glass did not think we were under any binding obligation to do it, but it was just a matter of extension.

Senator SMOOT. He said on the floor of the Senate the other day that under the law we had a perfect right to defer the payments of interest, and he said that Secretary Houston took the same position and he had no doubt that Secretary Mellon would take the same position. It was a policy.

Senator SIMMONS. I want to say that I recognize that the Secretary ought to have very large latitude in carrying on these negotiations, and I do not want, myself, to hamper him in any way, but I do want to know very definitely what his views are with reference to certain vital phases of this question.

Senator SMOOT. I think he has stated them very clearly.

Senator SIMMONS. I think Congress would want to know that, because if they should happen to disagree with him, then they would be disposed to place some limitations upon his power.

Senator REED. Mr. Wadsworth, is there a letter from the British Government or from the French Government asking to have this interest deferred?

Assistant Secretary WADSWORTH. There is none that I know of.

Senator REED. How was the request made for deferring the interest?

Assistant Secretary WADSWORTH. I think, as I remember it, Mr. Rathbone spoke to the representatives of these nations abroad and simply said that as this negotiation was now begun the interest would not be demanded.

Senator REED. Where is Mr. Rathbone now?

Assistant Secretary WADSWORTH. He is in New York, I think.

Senator REED. Mr. Chairman, I think I am going to insist on my motion, unless somebody——

The CHAIRMAN. What is your motion, Senator?

Senator REED. My motion was that the Secretary of the Treasury be requested to examine all the documents in this case and be prepared—I said at the next meeting, but I am entirely willing that he shall have all the time he wants—at the conclusion of his examination to appear before the committee and advise it just how far, if at all, he regards the United States bound morally, legally, or otherwise by any negotiations or correspondence that have taken place.

The CHAIRMAN. Would it be well to appoint a subcommittee of two members of this committee to examine these papers?

Senator REED. Very well. I thought the Secretary was the man who had to make up his mind, but I am perfectly willing.

The CHAIRMAN. I will appoint Senator La Follette and you to examine the papers—a nonpartisan committee.

Senator SIMMONS. It is not a matter of examining papers. It is a matter of what the opinion of the Secretary is from those papers.

Senator LA FOLLETTE. Of course it is. That is the purpose of the motion.

The CHAIRMAN. The committee has heard the motion. If there is no objection the motion will be considered as adopted——

Senator WATSON. I move that the committee proceed to executive session. I think we ought to talk about that among ourselves and outline a policy.

The CHAIRMAN. Is the examination of the Secretary finished for to-day?

Senator REED. Yes.

The CHAIRMAN. Have you any further questions, Senator La Follette?

Senator LA FOLLETTE. Not to-day.

The CHAIRMAN. Then the committee will proceed to executive session.

(Whereupon, at 11.55 o'clock a. m., the committee went into executive session, after which an adjournment was taken subject to the call of the chairman.)

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

SIXTY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 2135

A BILL TO ENABLE THE REFUNDING OF OBLIGATIONS
OF FOREIGN GOVERNMENTS OWING TO THE UNITED
STATES OF AMERICA, AND FOR OTHER PURPOSES

THURSDAY, JULY 28, 1921

PART 5

Printed for the use of the Committee on Finance



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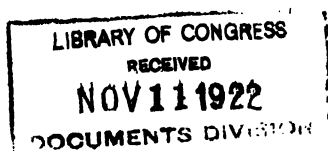
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REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

THURSDAY, JULY 28, 1921.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call of the chairman, at 10.30 o'clock a. m., in room 312, Senate Office Building.

Present: Senators Penrose (chairman), McCumber, Smoot, La Follette, Dillingham, McLean, Watson, Calder, Simmons, Gerry, and Walsh.

Present also: Hon. Andrew W. Mellon, Secretary of the Treasury; Hon. Eliot Wadsworth, Assistant Secretary of the Treasury; and John E. Walker, Esq., chief of the legislative drafting service of the Senate.

The CHAIRMAN. At the request particularly of certain members of the committee, and with the acquiescence of the whole committee, the Secretary of the Treasury is here to respond to certain inquiries regarding his purposes in relation to the funding bills, briefly so called. It is unfortunate that some of those who were particularly anxious to meet the Secretary this morning are not present, but it is impossible to delay this legislation indefinitely, and I will, therefore, request the Secretary to proceed with any written statement he may have prepared for the information of the committee.

STATEMENT OF HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY.

Secretary MELLON. Is it your desire to have this letter read?

The CHAIRMAN. I think so; yes, sir.

Secretary MELLON. Mr. Wadsworth will please read it.

Assistant Secretary WADSWORTH (reading):

SECRETARY OF THE TREASURY,
Washington, July 26, 1921.

Hon. BOISE PENROSE,
*Chairman Committee on Finance,
United States Senate.*

MY DEAR SENATOR: Complying with your request in behalf of the Finance Committee that I put in writing my understanding as to the obligations, if any, on the part of this Government in connection with the funding of foreign loans and the postponement of payment of interest thereon, I beg to advise you as follows:

1. In view of the action of my predecessors I am of the opinion that as to the principal foreign Governments receiving advances from the proceeds of Liberty bonds, this Government is committed to the postponement of the interest for two

or three years (over two years of which have already elapsed) and to the spreading over subsequent years the payment of the postponed interest installments; but that this obligation is contingent upon such foreign Government carrying out with reasonable promptness, after this Government is ready to proceed, a satisfactory funding of its existing short-time obligations to this country. As to the compounding of interest, Secretary Houston, in his annual report to Congress for the year 1920, clearly shows that it was not contemplated that interest should be charged on the postponed interest, at least during the two or three year period. However, I regard the dates suggested by Secretary Houston in his annual report for the payment of this deferred interest as merely tentative and not a binding commitment.

In view of the public announcement on this subject made by Secretary Glass, communicated as it was to the foreign Governments, reported to Congress by both Secretary Glass and Secretary Houston, and acquiesced in for more than two years, I think good faith and fair dealing obligate this Government to the extent I have indicated.

I do not consider that any obligations exist on the part of this Government by reason of anything taking place in the negotiations conducted by Mr. Rathbone with the representatives of the British Government, to which reference has been made in the hearings before your committee.

2. During the peace conference in Paris the representatives of Great Britain, France, and the United States agreed to recommend to their respective Governments to take in satisfaction of their advances made to Belgium prior to November 11, 1918, German reparation bonds out of a special issue of bearer bonds maturing May 1, 1926, to be made under the treaty of Versailles, and this recommendation was communicated to the Senate by the President on February 22, 1921. No action has been taken thereon.

Subsequently the principal European powers and Germany, in fixing the amount of the indemnity to be paid by Germany and the bonds to be issued in connection therewith, provided for an issue of what are designated as series A bonds, which should include the bearer bonds above mentioned. Whether what has been done will make this matter a subject for further consideration, I can not now say.

3. I would like to avail myself of the present opportunity to clear up a matter about which there seems to be some misapprehension, and that is as to the power given by the act to accept bonds of some country other than the debtor country. So far as concerns the principal debtor powers, which together owe us (without accrued interest) over \$9,000,000,000, there is no intention or thought of accepting in payment bonds other than those of the debtor country. The authority now asked, however, covers debts owing to us by Czechoslovakia, Greece, Rumania, Russia, Serbia, Poland, and a large number of other countries. Their resources and their ability to pay differ widely, and the conditions which will have to be dealt with can not now be foreseen. The situation which confronts the Treasury is exceedingly complex, and to deal properly with it the Treasury must have ample powers to enable it, when the condition of each debtor country has been definitely ascertained and the claims of all parties interested have been presented, to deal with the situation broadly in such a way as will, in its judgment, best protect the interests of this country and secure the payment of the principal and interest of the debts now owing to it. The representatives of this Government should have equally as broad powers as the representatives of any other country, so as to be able to demand and accept our share of whatever form of payment and security may be found to be obtainable in any case.

To accomplish this and to cover all contingencies, it was deemed necessary that the act should take the broad form in which it was presented to your committee.

In the present existing conditions I would urge the importance of the passage of this legislation at the earliest practicable date.

Sincerely, yours,

A. W. MELLON, *Secretary.*

Senator WATSON. Mr. Secretary, do you know the amount that the smaller countries, like Poland and Czechoslovakia owe to the nation of Germany or the amounts Germany is indebted to them?

Secretary MELLON. I do not know that Germany is indebted to any of those countries.

Assistant Secretary WADSWORTH. I do not think Germany is indebted to any of them, Senator.

Senator WATSON. I did not know. He spoke there on the subject of accepting German bonds by those particular nations as if they might have German bonds.

Assistant Secretary WADSWORTH. No.

Senator WATSON. Then I got the wrong meaning.

Assistant Secretary WADSWORTH. There is no question regarding German bonds referring to those smaller nations.

Senator McCUMBER. Mr. Mellon, there is one feature of the contention here before the committee that I do not think has been fully answered by your letter, and possibly a little explanation would elucidate the matter. The question has been propounded quite often to what you propose to do when this authority is granted. Will you just briefly state what your proceeding will be and what you expect to accomplish?

Secretary MELLON. The procedure would be to take up, first, I suppose, Great Britain, after that France, the country under consideration, would be expected to make a statement of what they could do or what they desired, and that would be the start of the negotiations.

With Great Britain, France, and Italy, the larger countries, I do not imagine any difficulties are going to arise. There may be a question possibly of some further deferment; I do not know. But that possibly may arise.

Senator SMOOT. That is, you mean, not interest for the future but the accumulated interest to date?

Secretary MELLON. The accumulated interest, and how far, for instance, they expect to go beyond the two years. The two years have expired. I presume in all of those cases we will be expected to defer previous interest.

Senator McCUMBER. What you mean by deferring of the interest is that this interest will simply be deferred as to the time in which it may be paid as an interest obligation?

Secretary MELLON. Yes, sir.

Senator McCUMBER. But that securities or governmental bonds will be taken for that interest that has accumulated?

Secretary MELLON. Yes.

Senator McCUMBER. In other words, that that possibly might be made into long-time bonds the same as the principal?

Secretary MELLON. Yes.

Senator SMOOT. Let me ask you if you have given any consideration or arrived at any conclusion as to the desirability or undesirability of taking the amount of the principal now due in the way of a bond and increasing the rate of interest or to absorb the amount of accumulated interest at the date of the bonds during the life of that bond?

Secretary MELLON. That is the suggestion that the President referred to or made, I think, in an address in New York, and his idea there was that if he added the interest, making a higher rate for the term of the bonds refunded, that that would make them more marketable and more readily disposed of to our own people. He thought that was a good suggestion. But there has been no suggestion on the part of the debtor countries of anything further than that.

Senator SMOOT. And you have not made up your mind it is the best policy to pursue?

Secretary MELLON. My own opinion would have been that this accumulated deferred interest should be added to the debt and all treated as one amount, and then the refunding made on that basis. That would be the natural way to treat it.

Senator McCUMBER. But there would be one thing to be said in favor of the higher rate of interest—that if we were pressed for cash at any time it would be very much easier to transfer those bonds and get cash out of them.

Secretary MELLON. It would have that merit, and if the rates of interest prevailing were lower than they are now it would not necessarily make any loss, because the bonds then might be sold at a premium.

The CHAIRMAN. Mr. Mellon, there is no intention on the part of the present administration to cancel or forgive any part of this indebtedness of foreign nations, is there?

Secretary MELLON. No.

The CHAIRMAN. That has been bruited abroad, though so far as conditions are at present it is absolutely without foundation?

Secretary MELLON. The examination of all these memoranda that are in the cases shows there has not anything been done nor has there any suggestion been made on the part of the Treasury in that direction. They have all along taken the position that these are obligations owing to this country, and valid obligations that must be eventually paid.

Senator McCUMBER. There has been one objection before the committee, if you will recall, about having the accumulated interest represented in the higher rate of interest in bonds that might be issued, that the Governments might pay them immediately and thereby escape accumulated interest. Is it not true that if you were to take bonds of that kind they would be due at such a definite future time and could not be paid on or before without paying the whole interest up to the time at which they became due?

Secretary MELLON. That is true, unless they should contain a provision making those payments optional at an early date. But without that they could not be paid.

Senator McCUMBER. But you would not allow them to contain that provision unless it would fully take care of that accumulated interest, would you?

Secretary MELLON. No.

Assistant Secretary WADSWORTH. May I say one word about the procedure: This letter speaks of the necessity of having powers as broad as those other nations will have in negotiation. We will carry on a negotiation—that is, the representatives of this Government—perhaps, with Italy, for example, and Italy will owe money both to England and France; and the Secretary of the Treasury, or whoever represents this Government, should have power to deal jointly with that debt, so there will be no restriction in those negotiations on the part of one of the negotiators.

Senator McCUMBER. Otherwise Great Britain could definitely agree with Italy, while all we could do would be to make suggestions.

Assistant Secretary WADSWORTH. Or we could agree only to accepting securities such as are contemplated in the Liberty loan acts, with definite dates of termination and definite rates of interest, etc. We would have no elasticity.

Senator McCUMBER. It would all have to come back to Congress?

Assistant Secretary WADSWORTH. Yes.

The CHAIRMAN. Would your negotiations contemplate any deductions from these foreign debts on account of claims by foreign Governments against us which might develop or which have developed.

Assistant Secretary WADSWORTH. I do not know of any counter-claims; I do not think there are any.

Secretary MELLON. They would have been presented by this time.

The CHAIRMAN. Reference was made to the entirely proper transaction of the payment of a bill for transportation to the English Government, and a good deal of unnecessary commotion was made over it; and I simply wanted to make the point that there would be no deductions from the principal of these debts to foreign Governments against us which might develop or which have developed.

Senator SMOOT. If we owe them anything we will pay it, and if they owe us anything we will expect them to pay us.

Senator McLEAN. Mr. Secretary, you would not expect to get much cash from France or Italy. Do you know whether England would expect to liquidate these bonds in any way other than by changing their identity in some way?

Secretary MELLON. I do not know of anything definite in that direction. There was some a few months ago. I think the budget of Great Britain contained an item of £40,000,000, which would be ordinarily about \$200,000,000, for payment of interest to this Government. That was in the budget proposed but I have not heard anything since on the subject and I imagine that Great Britain is expecting to meet the payment of the interest, so far as her debt is concerned.

Senator SMOOT. No offers of real estate of any kind?

Secretary MELLON. No.

Senator McCUMBER. Of course, if Great Britain offers cash to pay interest we would accept it?

Secretary MELLON. Of course.

Senator WATSON. Senator Spencer wanted me to ask whether the indebtedness of Poland, Czechoslovakia, or any of those smaller nations was guaranteed by either England or France.

Secretary MELLON. No; I think not.

The CHAIRMAN. Senator Spencer, there is no objection to your asking questions directly, since you are present, if you desire to address any inquiries to the Secretary.

Senator SPENCER. I have no questions to ask. I wanted the information that the Secretary has so clearly given.

Senator WALSH. Mr. Secretary, do you recall the proposed amendment suggested by me at the close of the hearings some days ago, which I will read to you. [Reading:]

The Secretary of the Treasury shall immediately transmit to the Congress copies of any refunding agreements entered into with the approval of the

President by each foreign Government under the application of the authority granted under this act.

You expressed a desire to consider that amendment before commenting upon it. Have you been able to form an opinion as to your wishes in the matter?

Secretary MELLON. My judgment is that that would not be practical, and that is met in this letter which I submitted this morning, in the explanation regarding these smaller Governments owing to other Governments certain amounts. It will be necessary for us have authority to make settlements, that is, agree to plans. Agree to plans of settlement along with the other Governments in the negotiations.

Senator WALSH. What is the objection when you have completed negotiations with, for illustration, Italy, and the terms for refunding have all been agreed upon, to communicating that agreement to the Senate and to Congress?

Secretary MELLON. We may have to proceed immediately with a negotiation similar to that one with some other Government, and it would be detrimental to the proceedings to have publicity of the whole agreement that has previously been made, until we arrived at the same conclusions in regard to the other negotiations.

Senator WALSH. Is not that going to leave all the American people for an indefinite period of time in ignorance and in blindness of what is being done, and what has been done to refund \$10,000,000,000; and long after you are out of office and somebody else comes and takes up the reins of office, this thing will be going on and nobody will know anything about it?

Secretary MELLON. These matters will be made public.

Senator WALSH. In the annual reports, such as you see fit to make; is not that so?

Secretary MELLON. There will be no occasion to keep them secret in any way, except so far as the desirability connected with the negotiations is concerned.

Senator SMOOT. That is, during the negotiation?

Secretary MELLON. During the negotiation.

Senator WALSH. You are of the opinion that making public returns of the conditions upon which you have refunded the debt of one country may have a detrimental effect in making a good trade for our country in negotiating with some other country?

Secretary MELLON. Yes.

Senator WALSH. That means, if that is the fact, then you will keep secret or prevent publicity being given to as many of these agreements as you choose and as much of each agreement as you may choose to do so?

Secretary MELLON. If there seems to be a reason for keeping it secret.

Senator WALSH. Do you want to assume that authority? Would you want to give that authority to anybody else—to any Secretary of the Treasury that any President might name?

Secretary MELLON. I have no desire to assume any authority or responsibility more than can be avoided. It is only what may be required and what may be necessary under the circumstances, at that time.

We may have simultaneous negotiations with several of those foreign countries, and they go on and one is not finally completed, and another may be completed. But it may be desirable to keep that information in hand until we arrive at a conclusion with the several Governments concerned.

Senator WATSON. It is a little the way a banker deals with a lot of creditors, some of whom are shaky and some are reliable. He does not give them the same terms and treatment, all of them, on the same basis, and the banker does not publish the information to every one in the neighborhood, while he is dealing with each individual debtor.

Secretary MELLON. That is correct; and I might say on the subject of the responsibility: I am at present exercising responsibilities perhaps as great as those given in this bill—not as great in the amount, but as we go along altogether there are very great responsibilities.

Senator WALSH. But they are matters that Congress can at any time interrogate you about?

Secretary MELLON. Yes; but Congress has not interrogated me about them; for instance, the borrowings of the Treasury, the fixing of the rates of interest. They are large amounts that are borrowed.

Senator WALSH. I do not hear you.

Secretary MELLON. I am just speaking of the general responsibilities of the office. They are as great almost as what is asked for in this act.

Senator WALSH. No Treasurer heretofore has had such a vast sum of money to negotiate with foreign governments, propositions relating to the refunding of the sum?

Secretary MELLON. No; not with foreign governments. But what I mean is the floating debt of our own Government. We are borrowing from month to month large amounts of money, and the rate of interest to be paid has to be fixed by the Treasury.

Senator WALSH. That authority every Secretary of the Treasury or every Treasurer in every State of the Union has to a limited degree.

Secretary MELLON. That is the point I am making; it is necessary.

Senator WALSH. And he has to make public as soon as every loan is negotiated, and everybody in the community knows it.

Secretary MELLON. But it is necessary to have that discretion lodged somewhere. In the same way there are in the sinking funds large amounts of Liberty loans purchased and canceled, and there are large transactions all the time. These negotiations are in a general way of some import.

Senator SMOOT. These loans are already made and there is no dispute between this country and the foreign countries as to the amount.

Secretary MELLON. No.

Senator SMOOT. And the only question is as to the terms of payment?

Secretary MELLON. That is the whole thing. Here are amounts of money that are due and owing. The procedure is to make an agreement to say when the payments shall be made of the interest and principal; that is the whole thing.

Senator SMOOT. Senator Walsh, do you object to modifying your proposed amendment by requiring a statement to be made upon the completion of the terms agreed upon?

Senator WALSH. My amendment only calls for a statement to be made to Congress upon the completion of it in each individual case. I do not know—we all may be dead, and there may be five Secretaries of the Treasury in the meantime before these negotiations have been completed. I suppose you will agree to that. You can not see any end to it, can you?

Secretary MELLON. But there is not any doubt in my mind but that in every case where settlement has been made and where it has no bearing on the other cases it would at least be made public.

Senator WALSH. What is the objection, then?

Secretary MELLON. Simply because you are putting something obligatory in it that may be an obstacle somewhere in the orderly procedure of taking up negotiations either simultaneously or one later than another.

Senator WALSH. Would you agree that there could be transmitted to the Senate in executive session the result of your negotiations in each case.

Secretary MELLON. That can always be had by the Senate.

Senator WALSH. I will not agree that that would necessarily be secret.

Secretary MELLON. There is not any time, even if you give this broad authority that is asked, that the Senate is precluded from asking for all of the information and obtaining it in executive session.

Senator SMOOT. Senator, another thing, there is the proposed amendment by the chairman which limits this act to five years, so there is not any doubt but what under this act they must be closed within five years or the authority lapses.

Senator WALSH. But the difficulty is that we are legislating for this man. We do not know but what there will be another Secretary of the Treasury to-morrow who will not have the business sagacity and the splendid skill in handling financial problems that the present Secretary has, and therefore we must put every safeguard about this to see that the most security surrounds the refunding of these loans.

Senator SMOOT. I have not any doubt but what they will all be settled in two years.

Senator WALSH. I know secretaries that you would not give this authority to.

Senator McCUMBER. With the negotiations that have already been had, say, with Great Britain, would there be any reason why we could not close the British case in a very few months?

Secretary MELLON. There is no reason why it should not be settled, as you say, within a few months.

Senator SMOOT. I expect to see every one of these cases settled within two years, and I think the Secretary will not handle the thing as he ought if they are not.

Secretary MELLON. I do not think it is going to take a long time. They might be taken up one after the other.

Senator WALSH. I want to have your position clear. Undoubtedly these are going to be points of attack against the bill as presented by you: First of all, you do not feel, under all the circumstances,

that you ought to agree to submit each of the negotiations to the Senate for their approval?

Secretary MELLON. No.

Senator WALSH. Second, you do not feel under all the circumstances that you ought to be asked to make a separate report of each consummated transaction with each one of the debtor countries?

Secretary MELLON. That objection may not apply to some of the cases. There are likely to be settlements made where they can be immediately reported. It is only in some cases that there may be delay.

Senator WALSH. In other words, you want discretion in that matter?

Secretary MELLON. Yes.

Senator WALSH. In some cases you would feel you could report and in others you would feel that you could not do so. You would not want any obligation imposing that upon you?

Secretary MELLON. No.

Senator McCUMBER. With the more important nations you would not be required to withhold anything.

The CHAIRMAN. I take it, Mr. Secretary, that 90 per cent or more of the debt comes from nations—three or four in number—which are thoroughly responsible?

Secretary MELLON. Yes.

The CHAIRMAN. And that adjustment with them would be accomplished possibly in a few months?

Secretary MELLON. Yes; possibly.

The CHAIRMAN. The long-drawn-out affairs would be with these little debts of new nations—mushroom nations?

Senator SMOOT. With no credit back of them to speak of?

The CHAIRMAN. No credit to speak of, and a factor in the negotiations which the Secretary will be intrusted with.

Secretary MELLON. I think that is a statement of what can be expected.

The CHAIRMAN. I think, Senator Walsh, that ought to be borne in mind.

Senator WALSH. What do you mean, Senator?

The CHAIRMAN. That 90 per cent of this indebtedness represents nations that can make good; nobody doubts their solvency, and those negotiations might be achieved in a few months. In respect of some mushroom nations, it may take several years. They may have no treasury department yet organized; probably have not.

Senator WALSH. The armistice was signed two and a half years ago, and not much progress was made up to the 4th of March last in negotiating for the refunding of these loans?

Secretary MELLON. No.

Senator WALSH. Although there was authority at that time vested in the Secretary of the Treasury to proceed to negotiate.

Senator SMOOT. I doubt it, as to the interest.

Senator WALSH. About interest, I think, that is right.

Senator SMOOT. I doubt it, as to interest.

Senator WALSH. To refund interest?

Senator SMOOT. Yes.

Senator WALSH. I think you are correct.

By the way, I want to repeat what the Senator said, or ask Mr. Mellon to repeat it—do you state as a matter of record that 90 per cent of this indebtedness is secure and safe and collectible?

Secretary MELLON. I believe so. When you say "collectible," I would say, "immediately collectible." I mean that it can be refunded and eventually those obligations will be sound securities.

Senator WALSH. Referring to your letter, page 1, "As to the compounding of interest. Secretary Houston, in his annual report to Congress for the year 1920, clearly shows that it was not contemplated that interest should be charged on the postponed interest, at least during the two or three year period. However, I regard the dates suggested by Secretary Houston in his annual report for the payment of this deferred interest as merely tentative and not a binding commitment."

Will you explain what you mean by that?

Secretary MELLON. In the first place, for the first two or three years it is binding. But the suggested extension of time of payment of deferred interest into the future was only tentative and is not binding.

Senator WALSH. So that you consider that the deferment of interest agreements are not binding up to 1922?

Secretary MELLON. I should say this, if we immediately open negotiations and the subject is concluded that that ends that period—that two or three years. You see that it is indefinite.

Senator WALSH. Pardon me, I wish you would amplify that. I do not quite understand how it is indefinite.

Secretary MELLON. It does not say three years; it says two to three years.

Senator WALSH. Yes.

Secretary MELLON. Well, that is indefinite.

Senator McCUMBER. And over two years have elapsed?

Secretary MELLON. Yes.

Senator WALSH. And three years will be up in 1922?

Secretary MELLON. Yes. I think they could claim deferment of the interest up until that time, but if the negotiations were on hand earlier than that I should think that would be the period that would be taken as the end of the deferment naturally.

Senator WALSH. Do you consider that we are morally bound not to collect interest on the overdue interest?

Secretary MELLON. If you will read further—

Senator WALSH (reading): "In view of the public announcement on this subject made by Secretary Glass, communicated as it was to the foreign Governments, reported to Congress by both Secretary Glass and Secretary Houston, and acquiesced in for more than two years, I think, good faith and fair dealing obligate this Government to the extent I have indicated."

I wish you would explain just to what extent Secretary Glass and Secretary Houston have committed this country to the policy or the position of not collecting interest on overdue interest.

Secretary MELLON. The Treasury made this statement to the foreign Governments.

Senator WALSH. Who was Treasurer at the time of the statement?

Secretary MELLON. I believe Secretary Glass was.

Senator WALSH. Who is it directed to, Mr. Secretary?

Secretary MELLON. To the British Treasury. Mr. Chamberlain replied to it—

Senator WALSH. Have you the date, Mr. Mellon?

Secretary MELLON. Yes; December 2, 1919.

Senator WALSH. Now, give us the communication that you refer to.

Secretary MELLON (reading): "The Treasury is prepared, at the convenience of the Governments of the Allies, to take up with their representatives the funding of the demand obligations which the United States holds into long-time obligations and at the same time refunding during the reconstruction period of, say, for a year or two or three years of the interest on the obligations of foreign Governments acquired by the United States under the Liberty loan acts."

That was stated to the foreign Governments.

Senator WALSH. Do you construe that language to bind our Government to a position of refusing to insist upon compound interest?

Secretary MELLON. I can not see how it could be otherwise. That was replied to by Mr. Chamberlain, of Great Britain.

Senator McCUMBER. May I ask Mr. Mellon a question at that point?

I want to know if, under the instrument which we took from the foreign Governments—the I. O. U., or whatever you call it—and for which we gave them credit, there was anything that provided there should be compound interest in case of any delay in paying the interest?

Secretary MELLON. No; there was not.

Senator McCUMBER. Then, as a legal proposition, could we collect compound interest where the instrument itself does not provide for compounding the interest?

Secretary MELLON. I do not know in international dealings exactly what is meant by legal authority.

Senator McCUMBER. I think it is generally conceded that in the laws of the States and under the common law there is no compounding of interest unless the instrument itself provides for it.

Secretary MELLON. That is so, and I imagine that the international dealings would follow the general custom.

Senator McCUMBER. It often happens that a Government is a little behind in its payments. If the Government of the United States is behind in its payments of interest, it never pays compound interest, does it?

Secretary MELLON. No; it does not.

Senator McCUMBER. Nor does it ever exact compound interest of others on obligations owing the Government, does it, unless the law itself provides for such compounding?

Secretary MELLON. I think that is so, Senator McCumber.

Senator WALSH. As I understand it, the demand notes had no maturity dates and had no definite paying date.

Secretary MELLON. I beg your pardon?

Senator WALSH. I say the demand notes had no maturity dates and no date fixing the interest payments.

Secretary MELLON. No.

Senator WALSH. In fact, it is true that all short-time obligations were not drawn in legal form to comply with the Liberty loan acts; in fact, they bore no interest provision such as is usually contained in the terms and on the face of bonds of the United States?

Secretary MELLON. No.

Senator WALSH. Did they bear interest at all?

Asst. Secretary WADSWORTH. Yes; they all bear interest.

Senator WALSH. But no date of payment of interest was fixed?

Asst. Secretary WADSWORTH. No.

Senator WALSH. Then, how can you collect interest when no date is fixed? How can you insist upon a certain date when there is no time fixed for interest to be collected?

Senator McCUMBER. Doesn't it say that it shall be paid semi-annually?

Asst. Secretary WADSWORTH. The instrument provides that the notes shall be exchanged for bonds of foreign Governments within a reasonable time.

Secretary MELLON. And those bonds shall be as provided for under the Liberty loan acts.

Senator McCUMBER. And those shall bear the same terms as are required in Liberty loan acts? Those provide for semiannual payments, but they do not provide for compounding the interest in the event interest payments are not met.

Senator WALSH. Do you know whether this question was submitted to the Attorney General?

Secretary MELLON. I do not think these questions were.

Senator WALSH. Would it appear, then, that the Treasury Department undertook to lend this money without legal authority?

The CHAIRMAN. Who was the Attorney General at that time?

Senator WALSH. I imagine he was the Texas man.

The CHAIRMAN. Is fame so evanescent that the great war Attorney General is not remembered any longer in this committee?

Senator WALSH. It shows how quickly fame passes away. I may add that that is true also of Senators as well as Attorneys General.

The CHAIRMAN. But we would expect that heroes of the war under the Wilson régime should have left imperishable memories.

Secretary MELLON. In regard to that question, Senator, I wish to say that no government has raised any question about the legality of these instruments.

Senator WALSH. I do not assume that they have. I am simply trying to determine whether there has been compliance with the law as to whether they were issued with proper authority.

Senator McLEAN. You say, Mr. Secretary, that there is no time fixed?

Secretary MELLON. They were to be replaced by the funding bonds, as provided by authority of the Liberty loan act.

Assistant Secretary WADSWORTH. May I read the form of the note?

The CHAIRMAN. I think the committee would be interested in that.

Assistant Secretary WADSWORTH. This form is a skeleton copy:

"The Government of (name of foreign Government), for value received, promises to pay to the United States of America, or assigns, the sum of (number of dollars in words) on demand, with interest from date hereof at the rate of (rate per cent) per cent per

annum. Such principal sum and the interest thereon will be paid without deduction for any (name of foreign Government) taxes, present or future, in gold coin of the United States of America of the present standard of weight and fineness at the Subtreasury of the United States in New York, or, at the option of the holder, at the Treasury of the United States in Washington.

"This certificate will be converted by the Government of (name of foreign Government) if requested by the Secretary of the Treasury of the United States of America, at par with an adjustment of accrued interest into an equal par amount of (rate per cent) per cent convertible gold bonds of the Government of (name of foreign Government), conforming to the provisions of acts of Congress of the United States known, respectively, as second Liberty bond act, third Liberty bond act, and fourth Liberty bond act. If bonds of the United States issued under authority of said acts shall be converted into other United States bonds bearing a higher rate of interest than $4\frac{1}{2}$ per cent per annum, a proportionate part of the obligations of the Government of (name of foreign Government) of this series acquired by the United States under authority of said acts shall, at the request of said Secretary of the Treasury, be converted into obligations of said Government of (name of foreign Government), bearing interest at a rate exceeding that previously borne by this obligation by the same amount as the interest rate of the bonds of the United States issued upon such conversion exceeds the interest rate of (rate of this obligation) per cent, but not less than the highest rate of interest borne by such bonds of the United States."

Senator WALSH. Isn't it true that the French Minister of Finance has continually held that the demand notes could not be claimed to be actually payable on demand and, further, that no court exists to enforce payments of these notes—no court in the world?

Senator SMOOT. That is true with every foreign obligation.

The CHAIRMAN. About the only way to collect them would be to send an army.

Senator WALSH. It has been suggested that this is for the purpose of putting our Government in the position of being lenient in the matter of collecting interest.

Senator WATSON. Mr. Secretary, do I understand you to mean that because of certain statements made by Secretary Houston and Secretary Glass to these foreign nations that the payment might be deferred for a period of two or three years; you do not think that interest should be collected on the interest on those debts?

Secretary MELLON. Yes.

Senator WATSON. And, supposing that we now enter into negotiations with a nation which can not pay interest; you then propose to take bonds for that interest?

Secretary MELLON. We expect to treat that interest as a part of the principal.

Senator WATSON. Yes. And that bond when thus taken will, of course, carry an interest rate?

Secretary MELLON. In other words, there is no question of having interest on interest for the future.

Senator WATSON. That is the point.

Senator GERRY. I understand your idea to be that there is a certain moral obligation that prevents the United States Government from demanding interest before April, 1922. With regard to the letter written by former Secretary of the Treasury Glass, have you discussed this letter with Senator Glass?

Secretary MELLON. No; I have not. I have only taken the record of the Treasury's proceedings.

Senator GERRY. I did not hear you.

Secretary MELLON. I have taken only the records of the Treasury that we have of the proceedings.

Senator GERRY. Don't you think in a matter of such great importance it would be well to consult Senator Glass in order that you might find out what his idea is?

Secretary MELLON. It is very plain; there is nothing obscure about it; it is clear. That representation was made to the foreign Governments and was accepted on the part of Great Britain.

Senator GERRY. In other words, you state there was a binding agreement not to collect any interest until April, 1922?

Secretary MELLON. For two or three years, of which over two years have now expired.

Senator GERRY. Well, if it was made for two or three years, after the expiration of two years our Government could demand the interest, could it not?

Secretary MELLON. Our Government has not demanded any interest, so that——

Senator GERRY. After the expiration of two years you are not bound by the letter of the former Secretary of the Treasury?

Secretary MELLON. Perhaps this may throw light on the subject. In answer to that representation of the Governments of the Allies, on the part of Great Britain Mr. Chamberlain wrote as follows.

Senator GERRY. The letter from which you read awhile ago was addressed to whom?

Secretary MELLON. To the Secretary of the Treasury.

Senator GERRY. I mean the first letter that Secretary Glass wrote.

Secretary MELLON. To the chancellor of the exchequer.

Senator GERRY. Of Great Britain?

Secretary MELLON. Yes. He replied——

Senator GERRY (interposing). Would you mind reading again the letter addressed to the chancellor of the exchequer?

Secretary MELLON (reading): "The Treasury is prepared, at the convenience of the Governments of the Allies, to take up with their representatives the funding of the demand obligations which the United States holds into long-time obligations, and at the same time refunding during the reconstruction period, say for a period of two or three years, of the interest on the obligations of foreign Governments acquired by the United States under the Liberty loan acts."

The chancellor replies as follows:

"You are already aware that the British Government accepts, as far as they are concerned, the suggestions of the United States that the demand obligations of the Allies should be funded into long-time obligations and that for a period of two or three years——

preferably three—the interest on the obligations of foreign Governments acquired by the United States should also be funded, and that we are ready to extend similar treatment to our allies in respect of their obligations to us.”

Senator SMOOT. Do I understand you believe, Senator, that this Government ought now to demand interest on interest?

Senator GERRY. Oh, no. I did not say any such thing as that. What I wanted to do was to get the views of the Secretary of the Treasury as to whether or not we are bound.

Secretary MELLON. I had already stated that in the letter.

Senator GERRY. I wanted to get your reason for stating it. I thought the matter was of such importance that I desired to know if you based your reasons upon the letter of Secretary Glass.

Secretary MELLON. Here is a copy of the communications between the Governments which arrived at that understanding.

Senator WALSH. I suppose there is a legal question whether we could not, as well as the moral question which you are now discussing.

Secretary MELLON. I beg pardon?

Senator WALSH. There is a legal question, is there not, as to whether we could collect compound interest?

Senator GERRY. According to the letters that the Secretary read from, it was two or three years. It was not definite.

Senator McLEAN. The chancellor of the exchequer chose three years. There was no question on the part of our Government.

Senator GERRY. I question that.

Senator McLEAN. Why raise the question when we have not got to the place for asking for it?

Secretary MELLON. Three years will be up soon.

The CHAIRMAN. I hope the examination will not drift into argumentative form.

Senator SMOOT. Why discuss it at all?

Senator GERRY. The committee seemed to think it was a matter of sufficient importance to ask the Secretary of the Treasury to come here, and since he is here I would like to get the information.

The CHAIRMAN. It seems to me, Senator, that an executive session on the floor of the Senate is the time for arguing these questions. We are here inquiring of the Secretary of the Treasury about these matters. My idea is to get this information and let him go, because he is a very busy man.

I want to say for one that I do not intend to allow much delay in the consideration of this bill on account of absence of members of the committee or on account of interminable examination.

Senator WATSON. I want to ask Senator Walsh if he wants to ask any more questions.

Senator WALSH. No. I was concerned about the Treasury's position on this proposed amendment.

Senator WATSON. I now want to ask Senator Gerry if he wants to ask any more questions.

Senator GERRY. No; I simply wanted to get at his reasons.

Senator WATSON. Then, Mr. Chairman, I move that we have an executive session of the committee.

Senator WALSH. I do not want to block progress in any way, shape, or form, but I do want to communicate to the committee what Senator Reed has said to me.

The CHAIRMAN. The committee has not heard from Senator Reed, but has been treated with considerable discourtesy, in my opinion.

Senator WALSH. However, I want to communicate the fact that he is now at the Attorney General's office, and he says he expects to get here just as soon as he can.

The CHAIRMAN. You do not happen to know the purpose of his business?

Senator WALSH. I understood that it was a pardon case that some of his constituents are deeply interested.

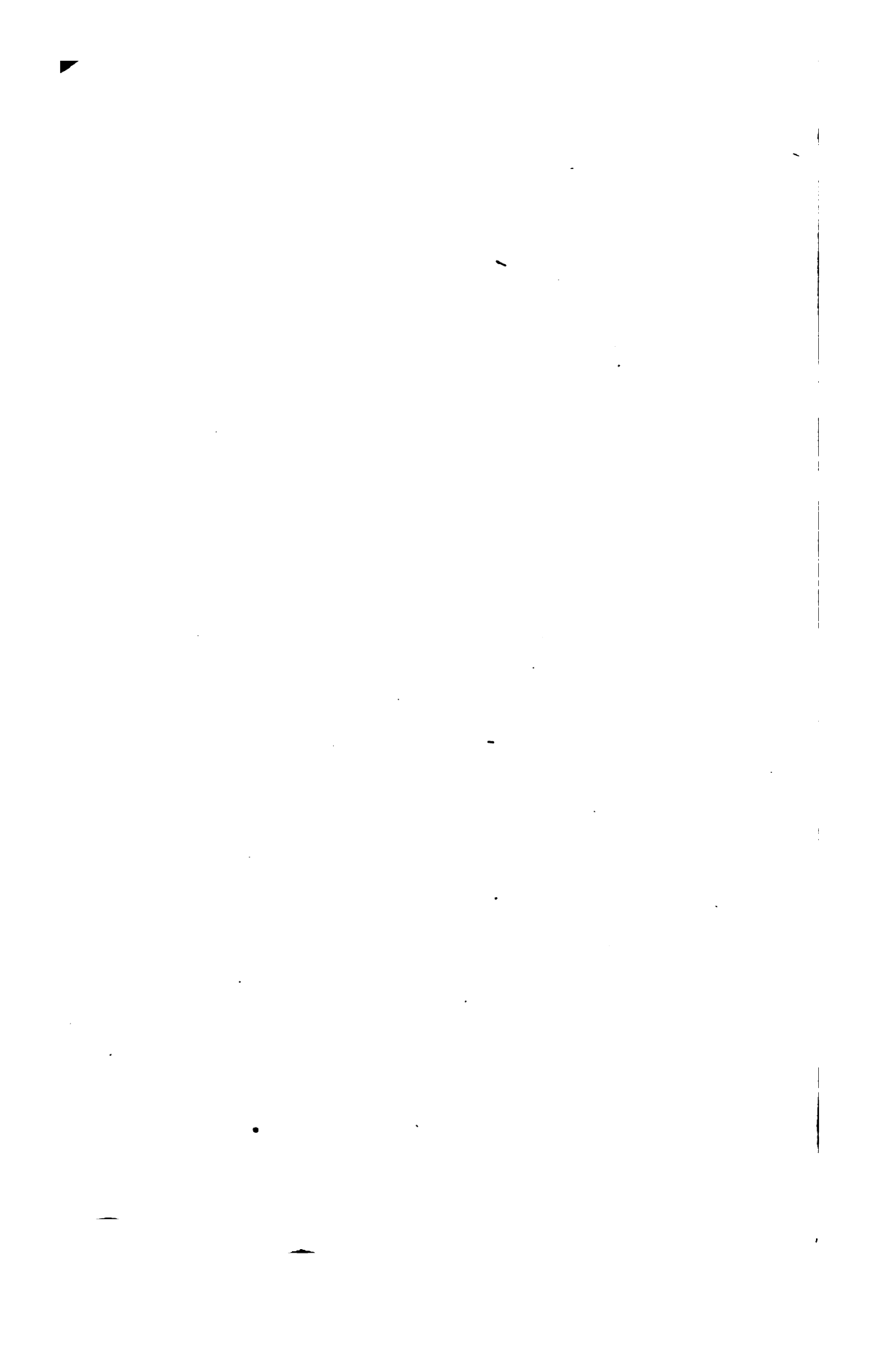
Senator WATSON. I now renew my motion to have an executive session.

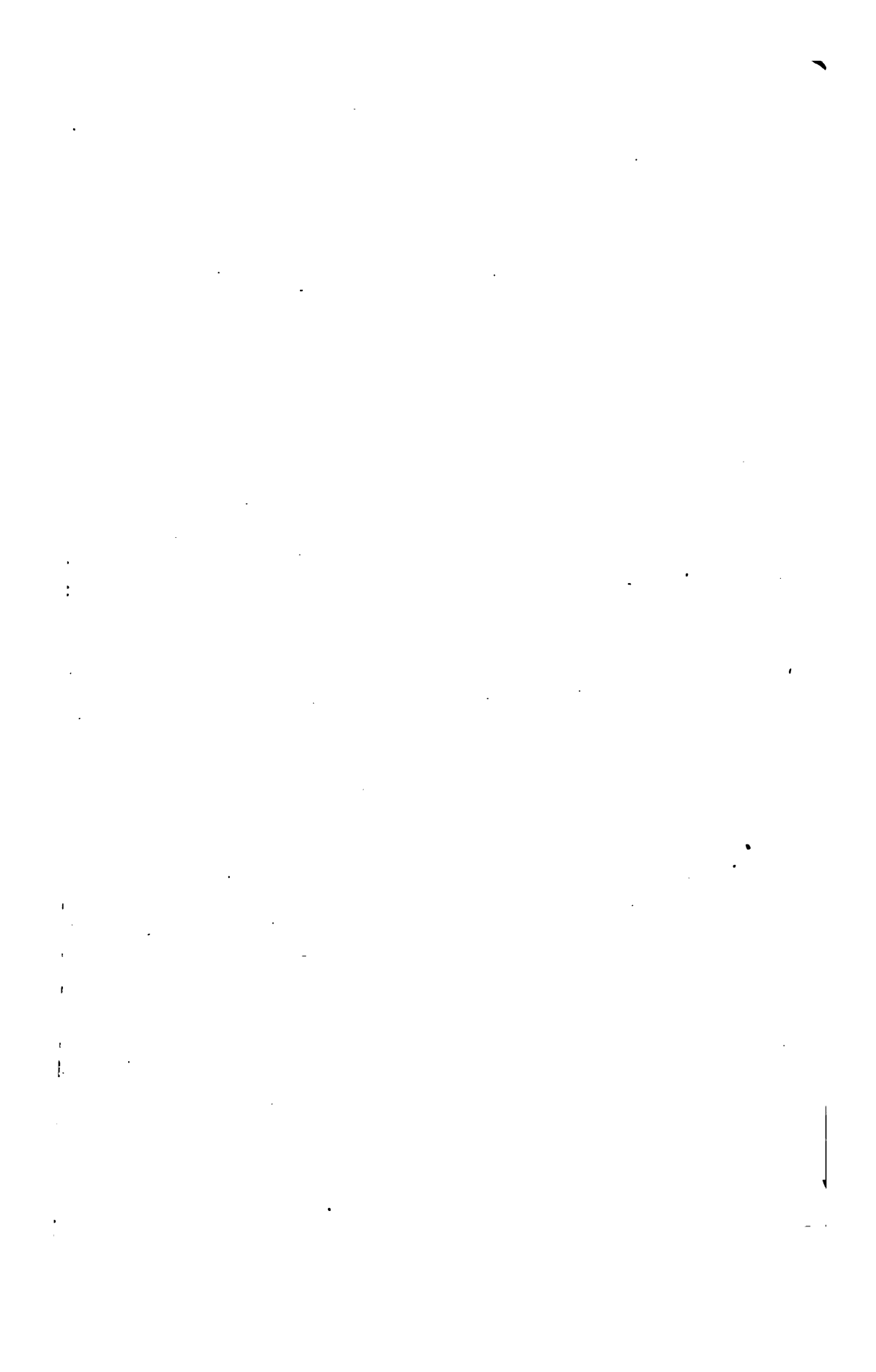
(The motion having been seconded and carried, the committee went into executive session at 11.35 a. m.)

1. The first part of the document is a list of names and titles, including the names of the authors and the titles of the works. This list is organized in a table with two columns: the first column contains the names of the authors, and the second column contains the titles of the works. The names are listed in alphabetical order, and the titles are listed in the order in which they appear in the document.



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